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S. HRG. 103–424

Senate Hearings

Before the Committee on Appropriations

Y 4. AP 6/2: S. HRG. 103-424

Treasury, Postal Service, and Gener...

Treasury, Postal Service, and General Government Appropriations

Fiscal Year 1994

103*d* CONGRESS, FIRST SESSION

H.R. 2403

DEPARTMENT OF THE TREASURY
EXECUTIVE OFFICE OF THE PRESIDENT
GENERAL SERVICES ADMINISTRATION
NONDEPARTMENTAL WITNESSES
OFFICE OF PERSONNEL MANAGEMENT
U.S. POSTAL SERVICE

APR 19 1994

S. HRG. 103–424

TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1994

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

UNITED STATES SENATE

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

ON

H.R. 2403

AN ACT MAKING APPROPRIATIONS FOR THE TREASURY DEPARTMENT, THE UNITED STATES POSTAL SERVICE, THE EXECUTIVE OFFICE OF THE PRESIDENT, AND CERTAIN INDEPENDENT AGENCIES FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1994, AND FOR OTHER PURPOSES

Department of the Treasury
Executive Office of the President
General Services Administration
Nondepartmental Witnesses
Office of Personnel Management
U.S. Postal Service

Printed for the use of the Committee on Appropriations

U.S. GOVERNMENT PRINTING OFFICE

68–622 cc WASHINGTON : 1994

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-043664-8

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TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1994

FRIDAY, APRIL 2, 1993

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10 a.m., in room SD–192, Dirksen Senate Office Building, Hon. Dennis DeConcini (chairman) presiding.

Present: Senators DeConcini and Bond.

U.S. POSTAL SERVICE

STATEMENT OF MARVIN T. RUNYON, POSTMASTER GENERAL

ACCOMPANIED BY:

MICHAEL S. COUGHLIN, DEPUTY POSTMASTER GENERAL
MARY S. ELCANO, GENERAL COUNSEL AND VICE PRESIDENT

OPENING REMARKS

Senator DECONCINI. The Subcommittee on Treasury, Postal Service, and General Government will come to order.

Today the subcommittee will begin its regular fiscal year 1994 budget hearings for the Federal department and agencies under its jurisdiction by taking testimony from representatives of the U.S. Postal Service and the Bureau of Alcohol, Tobacco and Firearms.

Our ranking member, Senator Bond, is on his way, and has advised me that I should go ahead and proceed. He will be here shortly.

Our first panel of witnesses consists of Marvin Runyon, Postmaster General of the United States; Michael Coughlin, Deputy Postmaster General, who I know—you'd never know that—of the United States; and Mary Elcano, General Counsel.

Mr. General, we are pleased to have you come before the subcommittee. There are a number of issues which we will want to discuss with you this morning, such as the effects of Postal Service reorganization, your plans for further cutbacks, and, of course, the revenue forgone.

I must say, Mr. General, you have taken some dynamic steps—obviously some risky steps and some steps that were obvious and needed to be taken. I compliment you for your leadership. Though I might have done it differently, I can't say that I would have even done it with the force and the stamina that you have, and I compliment you for that leadership.

REVENUE FORGONE

Year in and year out, Mr. General, the Postal Service comes before the Congress requesting funding for revenue forgone. For the past several years, Congress has been unable to provide the necessary funding. In fiscal year 1992, the Postal Service requested $649 million, and the Congress appropriated $470 million. In 1993, the Postal Service requested $481 million, and Congress appropriated only $122 million.

As you indicated in your opening statement, your 1994 request is $972 million. That's an increase of $850 million above the current level. It is my understanding that President Clinton's budget is only going to request $92 million.

Mr. General, with the way the budget has been going in the past, I really can't imagine in my wildest dreams that we would be able to provide the very large increase that you are requesting.

I recognize that something has to be done. I recognize this puts you in a very difficult financial bind. We can't just keep passing the costs along to the Postal Service while preventing you from raising rates. Unless we make some hard decisions, it is obvious that the Postal Service will be once again asked to shoulder the tremendous financial burden.

I don't like doing that. We have struggled here with this committee time and time again. We are not the authorizing committee, and we end up doing the authorization here. It isn't something that I thought was going to be part of my job, but we do it, and I welcome the opportunity to get other ideas.

I know my counterpart, Chairman Hoyer, has had hearings on this, and he has asked the interested parties to share in the pain. I think that was his quote. For the first time that I can recall, the Postal Service has responded with a legislative proposal. On March 10, you proposed to the Congress legislation to eliminate the preferred rates over 3 years and immediately restrict eligibility.

Again, I'd like to commend you for taking an active role and attempting to find a solution.

In the past, the Post Office has said, "That's up to the men and women up there in Congress to do. We are not going to make the suggestion." So I have to tell you, General, that I'm sure that this proposal is not going to be politically feasible, but at least you have come up with one. We need to work from there.

There will be formidable obstacles to overcome, just based on my involvement in this. I understand tough choices have to be made, and maybe it is time that we can start making them with you.

I have a number of questions I'd like to ask you. Due to time, I am going to submit some of them, they deal with different procedures in the Post Office and third-class mailings and what is included and what isn't.

Before I let you testify, General, I will yield to my ranking member and thank him for his strong commitment he has already demonstrated. He has learned more about this committee in the last 2 months than I think I have learned in 10 years.

Senator Bond, I welcome having you here, and I yield to you for any opening statement.

Senator BOND. Thank you, Mr. Chairman. I have got a long way to go to catch up to your knowledge of all the matters in this subcommittee, but it is a very interesting and a very challenging one, and I am delighted to be working with you on it.

I want to express my appreciation to the Postmaster General for being here with us today. I guess I'd have to agree with the chairman—I'm not sure I'd want to take on the responsibility or the job that you have. We are delighted you have, because you have taken a firm position in getting a hold of the reigns at the Postal Service.

I know you have had your detractors, and there has been a significant loss of jobs but, frankly, management efficiencies are the name of the game these days. We have to do the job that is expected of us with as few people as possible and as few resources as possible. I think you bring that firm commitment.

I, too, will have some questions, Mr. Chairman, but this is going to be a very busy day so I will defer further comment.

Thank you.

Senator DECONCINI. Again, welcome, Mr. General. I know you have a lengthy statement. We will put the entire statement in the record. If you could, summarize for us. You may proceed, sir.

STATEMENT OF MARVIN RUNYON

Mr. RUNYON. Thank you, Mr. Chairman.

As you say, I do have a rather lengthy statement, but I would like to summarize it for these proceedings.

We recognize and appreciate the challenges facing this subcommittee. You have a lot of very difficult decisions to make. Two of them will directly impact the Postal Service and could affect millions of postal customers and thousands of postal employees nationwide.

REVENUE FORGONE

The first issue is revenue forgone. We recognize that Congress created this program to serve a worthwhile goal and that it benefits many worthy organizations. However, it is clear that the Federal Government can no longer afford to pay this bill.

For 3 straight years the appropriation has failed to cover the costs of revenue forgone, and in each case Congress told us not to apply the law which allows us to increase the rates for subsidized mailers to make up for our losses.

It is not revenue forgone, Mr. Chairman; it is simply revenue gone—a deficit of nearly one-half of a billion dollars.

In fiscal year 1994, we estimate that it will take $531 million more to maintain subsidized postage rates at the levels currently required by law. That brings the total bill, including the deficit, to more than $1 billion. Yet, we have been told to expect only $92 million for revenue forgone in the 1994 budget.

In the past 2 months, we have talked with a lot of people, and we have developed an approach to solving the revenue forgone problem that we believe is fair and responsible.

Our proposal has three basic elements. The first is meaningful eligibility reform. When nonprofit rates were established by Congress in the early 1950's, it was estimated that only about 12,000

organizations would qualify. Today, the number of nonprofit permits has grown to 400,000. It is time to bring nonprofit eligibility back in line with the original purposes of this program.

We recommend that you limit eligibility for nonprofit rates to the original core of organizations that Congress intended to benefit from those rates—those with tax-exempt status under the Federal tax code.

We also recommend reducing commercial advertising that can be mailed at subsidized rates.

The second step is to phase out all subsidized rates for the remaining nonprofit mail except free mail for the blind and absentee voting ballots for Americans overseas in three equal steps. At the end of this process in fiscal year 1996, these mailers would pay their full share of overhead costs for handling their mail.

The third step is to retire the deficit of the revenue forgone program and lift the financial burden which has been carried by the Postal Service. This would come in small annual appropriations over 3 years.

Finally, we recognize that it is time for everyone to share the financial pain; therefore, to help resolve the problem the Postal Service and all mailers would absorb the interest costs of the revenue forgone deficit, about $1 billion.

Loud voices have already been heard on both sides of this issue. One group has called this approach draconian. Another says nonprofit mailers have been overcharged in past years and their rates should be reduced even further.

On the other side, some commercial mailers have called for the end of subsidized rates right now and for an immediate increase in nonprofit rates to the full fare.

The Postal Service proposal is a balanced compromise approach that protects the best interest of all postal customers. Everyone would make a financial contribution to the solution.

Nonprofit mailers eventually would pay the full cost of their mail, but they would get there in measured steps and have specific data for adjusting their budgets for future years. Even in the third year when they would pay their own way, nonprofit rates generally would still be much lower than equivalent commercial rates.

Tough as it is, this approach is more compassionate than the alternative under law—raising nonprofit rates to their full, unsubsidized level effective October 1.

The second public policy challenge facing us is deficit reduction legislation.

DEFICIT REDUCTION

The Office of Management and Budget once again says we owe more money—more than $1 billion—primarily for interest on costs we assumed under the Omnibus Budget Reconciliation Act of 1990. We believe—and Congress has twice agreed—that we settled this issue in full. As with revenue forgone, fairness is in question here.

Since 1985, we have been asked to contribute four times in deficit reduction legislation. Each time, we have agreed to take on new costs that the Federal Government, as a whole, had originally committed to pay. The combined cost of these assessments just through

1995 will total about $9 billion. This is an enormous amount of money.

The Postal Service has no magic vault from which we can get money to pay new assessments. I know there is a perception that we can absorb billions of dollars in costs without serious impact. We can't.

If Congress insists that we shoulder these extra expenses—$1 billion for revenue forgone and $1 billion in retroactive interest from the 1990 OBRA—we would have no choice but to do so. But this $2 billion would come at a dear price, because there are only two ways that any responsible business could respond to this challenge—by cutting its operations or by raising its prices.

To reduce cost, a sound, private sector business would look at reducing capital expenditures. It would probably halt expansion and stop new construction projects. It would think about reopening its labor contracts with employees, seeking give-backs and concessions to protect employment. It would consider cutting its service reach and product lines. And, as a last resort, it would have to look at furloughing or laying off employees and closing down plants.

The only other approach a reasonable business could take would be to raise the prices it charges, but it would risk undercutting its profitability and competitiveness. Gross sales and market share would drop, and layoffs and plant closings would follow.

There are practical and legal limits governing our operations, but if you force us to absorb these $2 billion in costs, you are simultaneously forcing us to explore these same scenarios and consider some drastic, painful steps.

One area the cuts would clearly impact is our capital program. Construction of new post offices would have to be halted, and improvements in existing ones deferred. Most of our labor contracts expire in 1994, and pay and benefits would again be on the table. But givebacks and concessions offer little possibility for cost reductions now.

Eliminating product lines wouldn't help because our services are priced to break even.

And the public wouldn't stand for us turning back the clock to 1987 when the OBRA of that year insisted we take $174 million from our operating budget, forcing cutbacks in retail hours, mail collections, and other services.

We can't simply withdraw service from parts of the country, either—even where we lose money. As part of our Government charter, we are obligated to provide universal service, and we do so.

In the past 9 months, we cut $2.2 billion from our budget. We eliminated layers of management, cut 30,000 overhead positions, dropped programs, and reduced other costs to shore up our finances and stabilize postage rates. Taking an additional $2 billion from labor costs would mean eliminating some 45,000 more positions.

We can't make additional large-scale cuts in the postal work force without sacrificing service quality and laying off employees, and I am committed to protecting both. Closing post offices would have to be considered.

A 1982 report from the General Accounting Office said we could save up to $150 million by closing, "7,000 unnecessary small offices." But we can't save $2 billion by closing small post offices—

and we wouldn't want to, because it would impact thousands of small, rural communities.

OMNIBUS RATE CASE

The other approach would be to raise revenues by increasing postage rates across the board. A $2 billion hit would force us to file an omnibus rate case next year. As with a responsible private sector company, a rate increase would have a negative impact on our profitability and would undercut our competitiveness. Mail volume would drop, revenue would suffer, and we would be back for still higher rates in only a couple of years.

A forced rate increase could also seriously impact economic recovery. It would hurt everyone—residential customers, business mailers, government organizations, and others who depend on the mail.

America's 8 million small businesses would be hit especially hard. These companies fuel our economy and provide the bulk of American jobs; yet, they also suffer the most bankruptcies and are the most vulnerable to increases in cost.

For many small companies, advertising is their second-largest expense, and mail is often the only affordable medium. An unnecessary rate increase triggered by costs and assessments we don't owe and shouldn't have to pay will be nothing more than a stamp tax on the American people, hurting everyone from families on fixed incomes to Fortune 500 companies.

The hardest decisions are often the most difficult ones to make. We have had to make some tough decisions of our own in the last 9 months. But in only a short time we have made important progress toward achieving the mandate Congress set forth more than 20 years ago.

We ask your help in maintaining our progress and protecting quality and price of mail service for the American people. We ask that you adopt the Postal Service's proposal for resolving revenue forgone.

It is a fair compromise approach that includes responsible eligibility reforms, measured increases in nonprofit rates so that ultimately these customers pay the costs of their mail, and a $1 billion financial contribution from the Postal Service and all postal customers.

We also ask for your support in our efforts to obtain fair treatment under deficit reduction legislation.

Thank you, Mr. Chairman. That concludes my remarks.

PREPARED STATEMENT

Senator DECONCINI. Mr. General, thank you very much. We have your complete statement and it will be made part of the record.

[The statement follows:]

STATEMENT OF MARVIN RUNYON

Thank you, Mr. Chairman. Joining me this morning are Deputy Postmaster General Mike Coughlin and General Counsel and Vice President Mary Elcano.

We're glad to have this opportunity to talk with you about the work we're doing to make the Postal Service more businesslike and responsive to its customers, and some of the obstacles we must overcome to achieve success.

When I joined the Postal Service last July, we faced a number of challenges. We were losing business to competitors and new technologies because of large, frequent

rate increases and inconsistent service. Our finances weren't in good shape—and too many of our customers—your constituents—were dissatisfied with our performance.

I talked to a lot of people about what we could do to turn that situation around. I heard a lot of good things—that our employees are competent, dedicated people; that we play an important role in the economy of our country, and that role should continue. But, I also heard a number of concerns. Customers and employees alike said we needed to reduce bureaucracy and overhead, starting at the top; stabilize postage rates; and, improve service quality.

In the past nine months, we've improved in all three areas. First, we did what thousands of private sector companies have done—we reorganized. We made our management structure simpler and flatter. We eliminated nearly 30,000 overhead positions and focused our resources better on serving customers. Our new structure is working—and working well.

At the same time, though, we've accomplished what most of those private sector companies weren't able to do—we restructured without laying off employees. We've worked to minimize the negative effects of these changes, and most of the affected employees now have new permanent positions.

We've also improved our finances—thanks to the efforts of our employees and the confidence of our customers, who are continuing to bring us more of their mail. We turned a break-even proposition last year into nearly half-a-billion dollars in income, not counting the costs of the restructuring. So far this fiscal year, were ahead of plan, and were on track to hold rates steady to 1995—and perhaps longer.

By doing so, we'll not only please our customers—we'll make history. We'll keep postage rates the same four years in a row for the first time since Congress established us to be a self-sufficient organization more than two decades ago.

Most importantly, we've made service quality our main focus, and its paid off. Eighty-nine percent of all household customers rate our overall performance as "good," "very good" or "excellent," according to the most recent results from our independently measured Customer Satisfaction Index. That's 2 percentage points higher than our best previous rating. And, from individual customers to the Mailers Council, which represents 59 organizations, 23,000 companies, two million private-sector employees and about 120 billion pieces of mail a year, the reviews are the same. They're saying this is the best the Postal Service has ever done.

And, we're just getting started. We're expanding retail hours in many post offices and taking other steps to improve service quality and convenience.

One of the keys to customer satisfaction is employee satisfaction, so we're working with employees to respond to their concerns and make the Postal Service a better place to work. We're focusing on improving relationships among managers and employees—making better treatment of people a management priority—and basing compensation on teamwork and organizational success. Changing the corporate culture of an organization more than two centuries old is a big challenge, but I'm confident that we can do it.

We're also taking steps to manage our resources better, develop private-industry partnerships, and expand our services so we can bring in more revenue and keep postage rates low and steady in the future.

We're working hard to fulfill the dual mandate given us by Congress in 1970—to be an effective government agency that provides universal service at an economical price—and at the same time be a successful business that pays its own way and offers competitive value in the communications industry.

To accomplish this mandate and build on our progress, one of the things we must do is resolve two public policy issues that have put rate stability in jeopardy—and our competitiveness at risk.

The first issue is revenue forgone. We recognize that Congress created this program to serve a worthwhile goal, and that it benefits many worthy organizations. However, the federal government over several years has shown us quite clearly that it can no longer afford to pay this bill.

For three straight years, Congress' revenue forgone appropriations have failed to cover the costs of handling this mail. In fiscal year 1991, the shortfall was $81 million. In fiscal year 1992, it was $74 million. And, in fiscal year 1993, the funding shortfall was $360 million. And, in each case, Congress told us not to apply the law, which allows us to increase rates for subsidized mailers to make up for our losses. It's not "revenue forgone," Mr. Chairman. Its simply "revenue gone"—a deficit of more than half-a-billion dollars.

In fiscal year 1994, we estimate that it will take $531 million more to maintain subsidized postage rates at the levels currently required by law. That brings the total bill—including the deficit—to more than $1 billion. And yet, we have been told to expect only $92 million for revenue forgone in the 1994 budget.

If the problem of paying for revenue forgone is not resolved in a responsible manner, it will impact all mailers through a general rate increase. That wouldn't be fair to the majority of postal customers, who would be forced to pay higher rates to keep those of a select few artificially low. It wouldn't be fair to postal employees, whose hard work to improve our performance and raise the quality of our service will be undercut. And, it wouldn't be fair to the country, which has a vested interest in the continued work and financial health of the Postal Service.

In the past two months, we have talked with a lot of people—Members of Congress and their staffs, representatives of the Administration, a cross-section of commercial and not-for-profit mailers, and others. We've developed one approach that we believe is fair and responsible.

Our concept has three basic elements: Meaningful eligibility reforms to cut the overall cost of subsidized rates; an orderly three-step phaseout of subsidized rates, leaving only free mail for the blind and overseas absentee voter ballots; and, a 30-year retirement of the revenue forgone deficit to settle accounts with the Postal Service.

The first step we propose is meaningful eligibility reform. When nonprofit rates were established by Congress in the early 1950's, it was estimated that only about 12,000 organizations would qualify. Today, the number of nonprofit permits has grown to 400,000.

It's time to bring nonprofit eligibility back in line with the original purposes of this program. To reduce annual revenue forgone costs by about $112 million, we propose that you do four things.

First, we recommend that you limit eligibility for nonprofit rates to the original core of organizations that Congress intended to benefit from those rates. Eligibility would be linked to an organization's tax-exempt status under the federal tax code. Churches, schools, and charities which operate on tax-deductible contributions would still qualify. Advocacy groups, professional organizations, political committees, social clubs, and commercial publishers would not.

Next, we recommend eliminating advertising for commercial products and services in nonprofit bulk third-class mail. This would apply across the board—to the ads for rocking chairs, school jackets, and vintage wine mailed by alumni associations—as well as those promoting greeting cards and knickknacks to raise funds for religious and veterans groups.

We also propose restricting the amount of commercial advertising in second-class publications sent at subsidized nonprofit rates. That limit would be 10 percent, and it would apply uniformly—to the glossy advertisements in Smithsonian magazine, as well as the seed ads in agricultural journals.

The second step is to phase out all subsidized rates for the remaining nonprofit mail except free mail for the blind and absentee voting ballots for Americans overseas—in three equal steps. This would be done by increasing the percentage of overhead costs paid by subsidized mailers by one-third in each of the next three fiscal years. At the end of this process, in fiscal year 1996, these mailers would pay their full share of overhead costs for handling their mail.

The third step in our approach is to retire the deficit of the revenue forgone program and lift the financial burden which has been carried by the Postal Service. The total amount to be retired would be $871 million—$515 million in funding shortfalls to date, and $356 million from the three-step phaseout of subsidized rates. This $871 million could be retired over 30 years with an annual appropriation of $29 million above the amount required each year to fund free mail for the blind. That $29 million happens to be the amount we have been told will be available for general spending on revenue forgone in this year's budget.

We recognize that it is time for everyone to share the financial pain. Therefore, to help resolve this problem, the Postal Service and all mailers would absorb the interest costs of the revenue forgone deficit, about $1 billion.

Loud voices have already been heard on both sides of this issue. One group has put forward the bewildering claim that nonprofit mailers have in fact been overcharged in past years and that they are subsidizing other postal customers. This group wants to reduce nonprofit rates even further. Another has countered by calling for the end of subsidized rates right now, and for an immediate increase in rates for all nonprofit mailers to the full fare.

The approach we've recommended has been called "draconian" by one special interest group. And, in testimony before our House Appropriations Subcommittee last week, another said, "It seems like (the Postal Services) objective is: How can we cause the maximum disruption to good Samaritans?"

All these points of view are extreme, but I consider that last statement offensive. This has been a difficult and painful examination for all of us. We recognize that these changes will have a significant financial impact on many worthwhile groups.

I'm a member of A-A-R-P. I read National Geographic. I believe in the importance of volunteerism and community service in America.

The hardest decisions are often the most important ones we make. The end of any subsidy is painful to its former recipients, and it is unfortunate that the financial realities that face our country require that these steps be taken.

Under our approach, nonprofit mailers will have advance notice that the subsidy is ending, and they will have at least some time and specific data on which to adjust their business and mailing budgets. And, even in the third year, when they are paying their full share of costs, their rates generally will still be much lower than equivalent commercial rates.

While this is a tough proposal, it's much more compassionate than the alternative under law—raising nonprofit rates to their full unsubsidized levels effective October 1. It is also fair, because it doesn't shift the overhead costs to other postal customers. It doesn't require people to help pay for mail they don't send or necessarily wish to receive. It doesn't tax postal customers or force anyone to contribute to a cause they do not support.

I believe that this approach protects the best interests of all postal customers, and that its a fair solution to a difficult situation. But, even if you disagree with the specifics of our proposal, the issues on which it is based cannot be ignored. If you cant subsidize everyone, don't. Subsidize the ones who need it the most. If you want to soften the impact on the affected nonprofit organizations, phase out the subsidy but do it over a reasonable period of time. And, if charitable organizations benefit society, then society should pay the bill. Postal customers shouldn't have to shoulder this burden.

The second public policy issue we must address is deficit reduction legislation. The Office of Management and Budget once again says we owe more money—more than $1 billion—primarily for interest on costs we assumed under the Omnibus Budget Reconciliation Act (OBRA) of 1990.

We believe—and Congress has twice agreed—that we've settled this issue in full. And, the law and the record support our position. The payments under the 1990 OBRA were part of a government-wide compromise to reduce the deficit. They were to represent the last step in eliminating the so-called "hidden personnel subsidies" received by the Postal Service, and according to the law, were assessed by Congress as payment for "any amounts which would have been due" if the changes made under the OBRA had been in effect when Congress and the President established the Postal Service on July 1, 1971. As the Conference Report explains, these payments were "calculated to satisfy" and "discharge" the liabilities of the Postal Service under the new law.

As with revenue forgone, the issue of fairness is in question here. Since 1985, we've been asked to contribute four times in deficit reduction legislation, and each time we've agreed to take on new costs that the federal government as a whole had originally committed to pay. The combined cost of these assessments—just through 1995—will total about $9 billion dollars. This is an enormous amount of money.

The Postal Service has no magic vault from which we can get money to pay new assessments. We simply cannot absorb billions of dollars in costs without serious impact. If Congress insists that we shoulder these extra expenses—$1 billion for revenue forgone, and $1 billion in retroactive interest from the 1990 OBRA—we would have no choice but to do so. But, this $2 billion would come at a dear price, because there are only two ways that any responsible business could respond to this challenge—by cutting its operations, or by raising its prices.

To reduce costs, a sound private sector business would look at reducing capital expenses. It would probably halt expansion and stop new construction projects. It would think about reopening its labor contracts with employees, seeking givebacks and concessions to protect employment.

A company fighting for its survival would have to consider cutting its service reach and product lines. As last resorts, it would have to look at furloughing or laying off employees and closing down plants.

The only other approach a responsible business could take would be to raise the prices it charges. But, it would risk undercutting its profitability and competitiveness. Gross sales and market share would drop, and layoffs and plant closings still might follow.

There are practical and legal limits governing our operations. But, if you force us to absorb these $2 billion in costs, you are simultaneously forcing us to explore these same scenarios and consider some drastic, painful steps.

One area the cuts would clearly impact is our capital program. Construction of new post offices would have to be halted, and improvements in existing ones deferred.

Most of our labor contracts expire in 1994, and pay and benefits will again be on the table. But, givebacks and concessions offer little possibility for cost reductions now.

Eliminating product lines wouldn't help, because our services are priced to break even. And, the public wouldn't stand for us turning back the clock to 1987—when the OBRA of that year insisted we take $174 million from our operating budget, forcing cutbacks in retail hours, mail collections, and other services.

We can't simply withdraw service from parts of the country, either, even where we lose money. As part of our government charter, we are obligated to provide universal service, and we do so.

As I explained earlier, in the past nine months, we cut $2.2 billion from our budget. We eliminated layers of management, cut 30,000 overhead positions, dropped programs, and reduced other costs to shore up our finances and stabilize postage rates. Taking an additional $2 billion from labor costs would mean eliminating some 45,000 more positions. We can't make additional large scale cuts in the postal work force without sacrificing service quality and laying off employees. And, I am committed to protecting both.

Closing post offices would have to be considered. A 1982 report from the General Accounting Office said we could save $125 million to $150 million by closing 7,000 "unnecessary" small offices. But, we can't save $2 billion by closing small post offices, and wouldn't want to, because it would impact thousands of small rural communities.

The other approach would be to raise revenues—by increasing postage rates across the board. A billion-dollar hit would force us to file an Omnibus Rate Case next year. As with the responsible private sector company, a rate increase could have a negative affect on our profitability and would undercut our competitiveness. Mail volume would drop, revenue would suffer in the long run, and we would be back for still higher rates in only a couple of years.

A forced rate increase could also seriously impact the economic recovery of the nation and the livelihoods of millions of Americans. It would hurt everyone—residential customers, business mailers, local, state, and federal government organizations, and others who depend on the mail.

As Richard McLaughlin, president and CEO of Reader's Digest Association, told the House Committee on Post Office and Civil Service in 1990, increases in postal costs "do not only affect bloodless bottom lines; they affect jobs, competitiveness, and the general state of the economy."

On top of the revenue forgone rate increases, a general rate increase would have an additional impact on nonprofit mailers. America's eight million small businesses also would be hit hard. These companies fuel our economy and provide the bulk of American jobs. Yet, small businesses also suffer the most bankruptcies and are the most vulnerable to increases in costs. For many small companies, advertising is their second largest expense, just behind payroll and ahead of rent. Mail is often the only affordable medium.

Of 14,500 mail order companies in the United States, the Direct Marketing Association says 86 percent have sales under $1 million a year, and the profit margins of many of them are smaller than the additional postage they had to pay in the last rate increase. "Postal rates to these companies are literally a life-and-death issue," says Dick Barton, Senior Vice President for Government Affairs for the Direct Marketing Association.

An unnecessary rate increase—triggered by costs and assessments we don't owe and shouldn't have to pay—will be nothing more than a stamp tax on the American people, hurting everyone from families on fixed incomes to Fortune 500 companies.

This is a time of tough decisions for the Congress and the Administration. I can appreciate the difficult choices facing you and your colleagues. We've had to face some tough decisions of our own in the last nine months. But, in only a short time we've made important progress toward achieving the mandate Congress set forth more than 20 years ago.

We ask your help in maintaining our progress and protecting the quality and price of mail service for the American people. We ask that you adopt the Postal Services proposal for resolving revenue forgone—a fair, compromise approach that includes responsible eligibility reforms, measured increases in nonprofit rates so that ultimately these customers pay the costs of their mail, and a $1 billion financial contribution from the Postal Service and all postal customers. We also ask for your support in our efforts to obtain fair treatment under deficit reduction legislation.

Thank you, Mr. Chairman. That concludes my prepared statement.

CAPITAL PROGRAM

Senator DECONCINI. Maybe you have made it clear, but what happens if you don't get the $972 million? Give me a couple of scenarios. What if you get $400 million, and what if you get $92 million? What will that do?

Mr. RUNYON. As I mentioned in the testimony, the first thing that we would do—and the thing we are going to have to start looking at immediately, because I think that the Congress and the administration have spoken. Revenue forgone is really not going to be a public policy subsidized by taxpayers any more.

So I think that what we have to do first is to look at our capital expenditures. We have more control over those than anything else.

When I first came to the Postal Service, after about 1 month we stopped all expenditures. Now then we have just recently released those to be gone into again so we can——

Senator DECONCINI. All capital expenditures?

Mr. RUNYON. All capital expenditures. Yes, sir; and I think that would be the first thing that we would be doing.

Since we recognize that we will not get all the revenue forgone, we need to be looking at that, so that's the first thing we will start doing, and we will start doing that immediately.

Another thing that we would have to look at is—I hate to say this, but the GAO says that there are 7,000 post offices out there that are unnecessary, and I really wouldn't want to do that, either.

You know, one thing that we shouldn't fail to mention here is that until 10 years ago the Postal Service received $460 million a year to help underwrite some of those kinds of expenses. We don't get that.

All of the things that we are talking about, we would have to open up again and start talking to people.

Senator DECONCINI. Of course, for the record, Congress has been of little help to you because we have written in prohibition of closing those 7,000 post offices.

Mr. RUNYON. Yes, sir; I understand that.

Senator DECONCINI. For whatever it is worth, I really don't like what we have done. I am not proud of it. We have done it out of shortage of funds and a feeling that the post office can absorb more. We may be at the end of that. I think that's what you are telling me. It is a real dilemma, because we don't have our allocations yet, but I don't know where we are going to get $900 million.

I'd like to support you for a lot of reasons. One is I think the post office is competitive and a good organization, and; two, you have demonstrated a willingness to bite some tough bullets, and you have done it in compliance with your contracts with labor and other organizations that you have had, but you have taken some positions that are unpopular.

SUBCLASS OPTION

If you get into a rate increase like your subclass options, which I attempted to broker last year, which couldn't go anyplace. I don't know why. Maybe I didn't have the persuasion you do, Mr. General. We attempted this of the preferred rate subclass option, which would eliminate the revenue forgone appropriation. A bona fide

subclass would allow the Postal Rate Commission to hold rate and classification hearings to determine which groups are eligible for postal preferred rates, and what that rate should be.

I believe that the subclass option is politically feasible. I'm not sure about that, but I think so.

Has the post office evaluated the Postal Rate Commission's subclass option when it was formulating your proposal?

Mr. RUNYON. I don't think that in my proposal they have looked at it that way. I think that it is something that we could look at and we need to look at.

I recognize that the compromise that we have proposed is one that may not be pleasing to everybody, but we all have to kind of share the pain. I think that's the main message that we are getting from the administration and from Congress, and we are prepared to share that.

Senator DECONCINI. Before we say no to your proposal—and I don't want to do that—can you look at the subclass option and give us your analysis of it——

Mr. RUNYON. Yes, sir.

Senator DECONCINI [continuing]. In relation to what your proposal is?

Mr. RUNYON. We'd be glad to do that.

Senator DECONCINI. OK.

[The information follows:]

LETTER FROM MARVIN RUNYON

Hon. DENNIS DECONCINI,
Chairman, Subcommittee of Treasury, Postal Service and General Government, Committee on Appropriations, United States Senate, Washington, DC.

DEAR SENATOR DECONCINI: At our April 2 hearing, you asked that we take a second look at the proposals for separate "subclasses" for subsidized mail which were advanced last year by the Alliance of Nonprofit Mailers and the Postal Rate Commission. We have reexamined these proposals, as you requested, and continue to believe that they did not provide a financially responsible and fair solution to the problem of revenue forgone.

Both the Commission and the Alliance would have established reduced overhead markups for the new subclasses to reflect their "public or social benefits." The Alliance would have limited this markup to 40 percent of the markup for the corresponding regular-rate subclasses. The Commission initially placed no "cap" on its markup, but revised its proposal to include a 40 to 50 percent limit. In other words, both the Commission and the Alliance would have established a "ceiling" but not a "floor" for the markup. The effect of these proposals would have been to shift at least half (and possibly much more) of the overhead costs of subsidized mail to regular-rate mailers. At current cost levels, this would amount to an annual cost surcharge of a minimum of $234 million on these mailers.

We are strongly opposed to measures of this type. A cost surcharge to finance reduced rates for some categories of mailers would encourage large commercial mailers to find cost-effective alternatives to the postal system, and pose a long-term threat to the economic viability of the Postal Service. We will not be able to compete successfully for the business of these valuable customers if our rate structure presents them with built-in disincentives to using our services.

Shifting the costs of revenue forgone from the taxpayers to regular-rate mailers would also violate certain basic principles of the Postal Reorganization Act. It would require regular-rate mailers to bear more than their fair share of postal costs. This is contrary to the statutory plan that each class of mail should bear only its own share of costs, and that the expense of subsidizing postage rates for broad public purposes should be paid from general tax revenues.

Also, at the hearing, you asked us to provide you with documentation to support our statement that we have settled our obligations with OMB regarding interest on costs we assumed under OBRA. I have enclosed the 1990 OBRA Conference Report and relevant correspondence which supports our position.

I would appreciate the opportunity to meet with you soon to discuss both of these issues at length. Thank you for your continuing support of the Postal Service.

Best regards,

MARVIN RUNYON.

GROWTH IN NONPROFIT MAIL

Senator DECONCINI. Mr. General, from time to time we all receive samples of mailings which use the preferred mailer. I am startled sometimes at how many there are and what appears to me to be a clear abuse of what was intended.

You mentioned 400,000-plus now. One example: for the past year and a half I have tried to get the Postal Service to explain why one chiropractic organization was eligible and another one wasn't. I couldn't get a very good answer. Last month the Postal Service finally pulled the mailer. But it took a year and a half to get its response.

There are numerous other questions that come up on education facilities and travel agents that are tied to them, and what have you.

Can you tell me what type of oversight is exercised on this subject by the Postal Service? What do you do? Why can't you police this more? Can you police it more?

Mr. RUNYON. We follow the rules that are set out for us. A lot of times these things are challenged by the IRS, for example. When the IRS loses and they are OK according to the courts, then they are OK for us.

There is not a lot of policing we can do to throw people out. We follow the rules that have been established for us.

Senator DECONCINI. Is it your position that any time the IRS certifies a 501(c)3 that then you just accept that?

Mr. RUNYON. Yes, sir.

Senator DECONCINI. It is? Is that by law or statute or rule or something that you have to do that? Are you prohibited from questioning that yourself? Or are you just inviting a lawsuit if you maybe had done that?

Mr. RUNYON. When the courts decide that an organization is a 501(c)3, that fits our qualifications.

Senator DECONCINI. I understand when the court decides.

Mr. RUNYON. Yes.

Senator DECONCINI. But when the IRS says so, do you just accept that?

Mr. RUNYON. Yes, sir; we do.

Senator DECONCINI. You take no further steps?

Mr. RUNYON. No, sir.

Senator DECONCINI. And you are not part of the IRS' determination? They don't ask you for an opinion?

Mr. RUNYON. No; I don't think they do. I may be wrong about that. They don't ask my opinion about my taxes. I know that.

Senator DECONCINI. Would that be helpful if they did ask you for an opinion? Does the post office have an opinion of what they think is a charitable preferred mailer or not? Do you have a definition?

Mr. RUNYON. I guess my opinion would be—and then I'll ask my General Counsel to speak to that, because she knows more about the legalities of it. But I think that if it is a 501(c)3, that means

that you can deduct that from your taxes. And if it meets that qualification and the IRS is willing to accept that, then we do.

Mary, would you answer that?

Ms. ELCANO. Yes, sir.

I would suggest that we would not want to generally get involved in determining tax-exempt status of organizations, answering that direct question about exemption.

Senator DECONCINI. I understand that. Excuse me. But my question is a little bit—don't you have an interest in determining whether or not they are a charitable organization, not the tax issue? Maybe not. Do you have a definition in the Postal Service of what is a charitable organization? Do you just say go to the IRS and if you get it we go along with it?

Ms. ELCANO. We say, at least on the 501(c)3's, and then we go beyond that into other areas of labor union publications and fraternal order publications, things like that, that are much broader than just the tax-exempt question.

What our regulations now say, which is the current eligibility reform we are trying to address, is that a lot more than just 501(c)3's are eligible for that way beyond charitable.

Senator DECONCINI. Yes; the 501(c)4's are.

Ms. ELCANO. Yes.

Senator DECONCINI. They are not tax exempt.

Ms. ELCANO. Correct, Senator.

Senator DECONCINI. You don't do anything about those, either.

Ms. ELCANO. No; those are currently eligible for the Postal Service's reduced rates.

Senator DECONCINI. Let me give you a hypothetical. If I mail you a package here of a very fine university or a very fine religious organization, and in there is an offer to travel to Tahiti at a discount, to get a VISA card, to join the Price Club, or some club at a discount, and it is three-quarters promotional stuff that is going under that preferred mailer, what do you do? Nothing, because you know that is a 501(c)3?

Mr. RUNYON. Our proposal is to reduce the amount of advertising that could be there. But under the law that Congress has set forth, we have to follow the rules that are set out there. We think there should be some reform in what is allowed. There is too much advertising allowed.

Senator DECONCINI. Are you suggesting that if Congress said not more than one promotional piece or not more than one piece of paper can go in a preferred mailer that is not directly related to it—because we know what happens. They get a commission. That's why they are doing it.

Mr. RUNYON. Right.

Senator DECONCINI. So it is a good deal for the businesses, and a good deal for the charities, but actually it is a subsidy that you are paying for, not us, not the Government. In the sense that we are not paying you back for it.

Mr. RUNYON. That's right.

Senator DECONCINI. OK. I wish I had a way of—let me ask you this, Mr. Runyon. Could your legal counsel or anybody care to give us some suggestions of defining what ought to be or ought not to be permitted in such mailings? I'm not going to lay this off on you,

because we are going to have to act if we do something, but I'd like to know what you think is reasonable.

Mr. RUNYON. Mary, tell him what we've got in our proposal.

POSTAL SERVICE PROPOSAL

Ms. ELCANO. Yes, Senator; in our proposal we had a recommendation that in this discreet issue, this area, that we would have the 501(c)3's, 501(c)5's, 501(c)8's, and 501(c)19's—generally, those are the charitable, religious, educational, or scientific, which is the 501(c)3, the (c)5; labor, agriculture, or horticulture; and the (c)8's are fraternal beneficiary societies; and 19 is veterans' organizations.

In terms of going back to your question about policing this and how it would best be done, the administrative decisionmaking process for the Postal Service would be enhanced if the decision were made that these categories of mailers or some version of categories of mailers that fit within definitions in the tax statutes, could be decided, and then we could piggyback on that.

I think it might be difficult for 40,000 post offices to police that, in fact, the proper permits are being enforced and that kind of thing. I just think that the more decentralized it is for the Postal Service to do that, the more difficult it might be.

The fact that there is a set of statutes and regulations on board with the IRS, we could track along with that.

Senator DECONCINI. Thank you.

General, what kind of feedback have you received from the nonprofit groups in regard to your proposal?

Mr. RUNYON. They are not very happy with this proposal.

Senator DECONCINI. I thought that might be the answer.

Mr. RUNYON. They say that this is very draconian; that we, the Postal Service, are trying to not take care of them.

Senator DECONCINI. How many groups would be eliminated from the revenue forgone subsidy by tying eligibility to IRS statutes for nonprofit groups?

Mr. RUNYON. I don't know that number. We can find that number for you.

Senator DECONCINI. Is that a retrievable number?

Mr. RUNYON. I think it should be. Out of 400,000, we think that's about 12 percent of the third-class nonprofit mail volume.

Senator DECONCINI. About 26 percent?

Mr. RUNYON. No; 12 percent. So it is roughly 100,000.

Senator DECONCINI. That's what you think the percent would be. OK.

I yield to the Senator from Missouri.

Senator BOND. General, I am following up on the chairman's questioning. I think there are some options that we need to look at—what the impact would be if there were restrictions on the organizations and restrictions on the kind of mail that is sent.

I am always glad to hear from the institutions from which I have graduated, but it does strike me as a bit strange that they often communicate to me about all these wonderful trips I can take and the great things I can buy. It seems to me when they get into that business, that piece of mail may be more in the nature of a commercial solicitation.

Again, I don't have the full answers on it, but I would be most interested in it.

I was also struck with your analysis that higher rates will mean lower use, and not necessarily an increase in revenue.

Mr. RUNYON. And less jobs.

NONPROFIT MAILERS

Senator BOND. And there is sometimes in Washington a failure to recognize the fact that price does have an impact on demand. Certain agencies like OMB and others tend to forget that if you raise rates or if you raise taxes on a particular activity or particular service or good, you are going to get less of it.

I appreciate your understanding of economics. I only wish you could disseminate it a little more widely.

Could you give us—you touched on it, but what do you think would happen if rates of nonprofit mailers—if the current rate freeze were lifted? What would be the impact on them were that approach to be adopted?

Mr. RUNYON. The fact is that if we go with an unsubsidized rate, their rates are still lower than the commercial rates.

The in-county newspapers, for example, would go from $0.07 now to $0.09. Commercial rates are $0.126. So their rates would still be lower than commercial rates.

I think one thing that I would like to mention here is that, regardless of how we qualify people for not-for-profit rates, we still have to pay the bill. Somebody has to pay the bill.

What we are seeing is that out of the $92 million that we are getting this year, $29 million of that will go for others than the blind or absentee voters overseas. And $29 million is all we are talking about that we would have to allocate.

Out of $531 million, I don't know who would get that. It is not much money, regardless of how we decide who is going to get it.

Senator BOND. I'm sorry. Would that amount—did you say that amount would cover what you consider the core needs for the mailing for the blind and overseas ballots?

Mr. RUNYON. Yes, sir; the $92 million will cover the blind and ballots from Americans overseas for voting. So that would cover that, but it only leaves $29 million for the rest of this $531 million.

Senator BOND. I see. So that would be——

Mr. RUNYON. Right. And, by the way, it is $531 million for next year, but we have to take and add to that $80 million that we were promised 3 years ago to receive in 1994.

Senator BOND. Typical Government funding.

Mr. RUNYON. That has to cover that. So you've got $80 million over here. We get $92 million. We still have to cover the blind and the voters. So we haven't got enough money to do that, either.

Senator BOND. All right. I think many of these questions have been touched on already, but I'd like to go back and move on to the area of postal management changes.

For the record, could you outline some of the steps you have taken, the savings that resulted, and what you think the long-term impact will be?

RESTRUCTURING OF THE POSTAL SERVICE

Mr. RUNYON. We have reduced our overhead positions by 30,000. That will save us, long term, $1.4 billion every year. So from a manpower standpoint, that's what we have done.

By the way, there were no layoffs in that. We didn't lay anybody off. We provided incentives for people to retire. Over 47,000—I think it was 47,850 people—took that opportunity to retire. That cost us $1 billion in incentives to do that, but we will save $1.4 billion per year as a result of that action.

We have also refinanced $5 billion of our debt, which is going to save us $2.2 billion over a 20-year period, so that is helping us reduce our overhead costs. Interest is an overhead cost, also. So those are two of the major steps that we have taken.

We are looking at productivity in our operations, and we are improving our productivity.

We are improving at the present time our sales. We are looking at improving our revenues, and we are doing that. We are able to do that because of the pricing we have today.

The minute that we go up on pricing, we will lose business to people to alternate delivery methods. There are many people who now deliver part of their product by alternate delivery methods in the areas where somebody can be competitive with us. They don't deliver much of that in Alaska, but they deliver it in New York City and Dallas, TX, and places like that.

So if we hadn't done what we did, we would have been losing business. As it is, we are hanging on to our business and we are seeing it grow a little bit now. And we need to continue to do that. If we take a hit of another $2 billion in there into rate increase and throw the rates up $0.05 or $0.06, I will guarantee you our revenues will drop. When the revenues drop, we will have to take some more drastic steps such as reducing capital even more, reducing employees even more. That would be a very serious problem.

PRODUCTIVITY

Senator BOND. You mentioned productivity improvements. What kinds of productivity improvements have been the most significant?

Mr. RUNYON. We have the first two quarters of this year improved our productivity 4.1 and 4.7 percent, and that's the first time, I believe, in 10 years since we have had some productivity measurements that we have done anything like that.

Senator BOND. What is responsible for that? Is it just the induced retirements? Is it lowering labor costs? Or have there been other things that you have done that have increased the productivity?

Mr. RUNYON. It has been the incentives for people to elect to retire, which has——

Senator BOND. So it is lowering overhead labor costs, primarily?

Mr. RUNYON. Yes; and also getting our automation in operation. We've got automation that has gone in place, and we will become more productive as a result of that. It is people looking at what they can do.

What we have been doing has really got the postal employees feeling good about themselves, and they are excited about what is

going on. They were excited at Christmas when we delivered all the mail.

People said, "You will never deliver the mail at Christmas." When 47,000 people left, they said it was going to be gridlock. It wasn't gridlock. It was the best Christmas we have ever had.

We just got our customer service report back, and we went up from 87 percent, which was the all-time high in the Postal Service, to 89 during that very period. That means 89 percent of the people think we do a good job delivering mail.

Senator BOND. So the cards that we got after Christmas were really the fault of the senders—they just hadn't gotten around to it?

Mr. RUNYON. It could be.

Senator BOND. I saw some of the postmarks.

You answered my next question. I was going to ask about the morale, but you believe the postal employees have seen that they can be more efficient with a smaller work force, and they have accepted the automation and other improvements that you have made?

POSTAL EMPLOYEES MORALE

Mr. RUNYON. When we made the reductions, we cut overhead. We didn't touch the people that touch the mail. So that is why the mail keeps going.

What we did was get into the part of top management that was giving all the directions. Now we are empowering our employees to make decisions about how to deliver the mail, and that's wonderful. They know how to do that better than we know how to do it, and we are letting them do that, so they feel pretty good about that.

But I'll tell you what. I'm getting questions nowadays about the $2 billion. Now what happens to us? All of the sudden, we are going to get hit with $2 billion. We go for a rate increase, and then people say, "Look at the postal employees, how awful they are. They don't do their job good. If they'd do their job and just stop goofing off, they wouldn't have to have rate increases."

They understand that thoroughly. Those 670,000 people out there understand that they are going to be the ones that are going to be the targets of everybody in this country saying, "Look. They are going up on rates again. They are really inefficient."

They are not inefficient. They are the most productive post office in the world, and they are competitive with our competitors out there, too. We have prices below our competitors in many cases.

Senator BOND. Mr. Chairman, I think that we have some ideas that might be a good model for other areas of Federal Government, but I will defer any further questioning.

OMNIBUS BUDGET RECONCILIATION ACT OF 1990

Senator DECONCINI. Mr. General, thank you for your time.

Before you go, just for the record let me clarify now. We are talking about $2 billion shortfall, of which 900-some of which is what you are requesting for revenue forgone?

Mr. RUNYON. Yes, sir.

Senator DECONCINI. The $1.37 billion, or something like that, is what OPM is demanding that you pay?

Mr. RUNYON. Yes, sir.

Senator DECONCINI. And can they force you to pay that?

Mr. RUNYON. They have instructed us to put it in our budgets.

Senator DECONCINI. But without legislation they cannot force you to pay that; is that correct?

Mr. RUNYON. I think that's true.

Senator DECONCINI. Is that correct?

Ms. ELCANO. Yes, Senator.

Senator DECONCINI. And so what happens if you don't pay it, besides—who picks it up? Or is that just a liability then, an unpaid liability? Or does OPM pay it?

Mr. RUNYON. We don't think it is an unpaid liability.

Senator DECONCINI. You don't think it is a liability?

Mr. RUNYON. No; we don't think it is our responsibility. We have paid $9 billion.

And now they come back and say we haven't quite paid them all of that yet, so let's charge them interest on that. But the fact is that when the agreement was reached they said this is it, this is the final settlement.

Senator DECONCINI. And now they have changed?

Mr. RUNYON. It is like buying a car 5 years ago and they come back and say, "Listen, we forgot to charge you something on that car, so you owe us more money now."

Senator DECONCINI. Was there a final agreement? Do you have a copy of the agreement? Was it a written final agreement?

Mr. RUNYON. We can supply that for you.

Senator DECONCINI. Would you supply that for us, please?

Mr. RUNYON. Yes, sir; we will do that.

Senator DECONCINI. I'd like to see that.

And in your interpretation, Mr. Deputy, or recollection, that was a final agreement?

Mr. COUGHLIN. Yes; there was language to the effect that said the 1990 OBRA portion applying to the Postal Service was a full and final settlement.

Senator DECONCINI. It says "full and final settlement."

Mr. COUGHLIN. It has words to that effect.

Senator DECONCINI. I'd like to see that, if you would be so kind. If it is a big document, would you underline it or paper clip that page for me?

Mr. COUGHLIN. We'd be glad to do that.

Senator DECONCINI. Thank you.

[The information follows:]

[From H. Rept. 101-964, Oct. 27, 1990]

USPS PAYMENTS FOR PRE-1987 LIABILITIES

House bill

Section 8103 of the House bill requires the Postal service to the make payments to the Civil Service Retirement and Disability Fund and the Employees Health Benefits Fund. The required payments are calculated to satisfy the liabilities which the Service would have incurred had sections 8348(m) and 8996(g)(2) of title 5, United States Code, as amended by section 8101 and 8102, been in continuous effect from July 1, 1971 (postal reorganization) through September 30, 1986. Section 8103 requires the Postal Service to discharge those liabilities by payments spread over fis-

cal years 1991 through 1995. The payments include interest accruing from October 1, 1990.

[From Public Law 101-508, Nov. 5, 1990]

SEC. 7103. PAYMENTS RELATING TO AMOUNTS WHICH WOULD HAVE BEEN DUE BEFORE FISCAL YEAR 1987.

(a) DEFINITION.—For the purpose of this section, the term "pre-1987 fiscal year" means a fiscal year before fiscal year 1987.

(b) FOR PAST RETIREMENT COLAS.—As payment for any amounts which would have been due in any pre-1987 fiscal year under the provisions of section 8348(m) of title 5, United States Code (as amended by section 7101) if such provisions had been in effect as of July 1, 1971, the United States Postal Service shall pay into the Civil Service Retirement and Disability Fund—

(1) $216,000,000, not later than September 30, 1991;
(2) $266,000,000, not later than September 30, 1992;
(3) $316,000,000, not later than September 30, 1993;
(4) $416,000,000, not later than September 30, 1994; and
(5) $471,000,000, not later than September 30, 1995.

(c) FOR PAST HEALTH BENEFITS.—As payment for any amounts which would, for any period ending before the start of fiscal year 1987, have been payable under the provisions of section 8906(g)(2) of title 5, United States Code (as amended by section 7102) if such provisions had been in effect as of July 1, 1971, the United States Postal Service shall pay into the Employees Health Benefits Fund—

(1) $56,000,000, not later than September 30, 1991;
(2) $47,000,000, not later than September 30, 1992;
(3) $62,000,000, not later than September 30, 1993;
(4) $56,000,000, not later than September 30, 1994; and
(5) $234,000,000, not later than September 30, 1995.

MEMORANDUM FROM REPRESENTATIVE WILLIAM L. CLAY

March 7, 1991

MEMORANDUM FOR MEMBERS, COMMITTEE ON POST OFFICE AND CIVIL SERVICE

FROM: WILLIAM L. CLAY, CHAIRMAN

SUBJECT: REPORT TO HOUSE BUDGET COMMITTEE

Section 301(d) of the Congressional Budget Act of 1974 requires each committee to submit to the House Budget Committee its views and estimates on budget items within the jurisdiction of the committee. The Budget Committee requests that our report be simple, straightforward and focused on major policy issues contained in President Bush's fiscal year 1992 budget. The Budget Committee further requests that our report be submitted no later than March 13.

In accordance with the Budget Committee's request, there are attached proposed views and recommendations of this Committee on the major policy issues under the Committee's jurisdiction contained in the Administration's budget for fiscal year 1992. Should you object to the submission of this report to the House Budget Committee, please notify Bob Lockhart, the Committee General Counsel (x54054), prior to March 13. In the absence of objection by a majority of the Members of the Committee, this report will be submitted to the Budget Committee on March 13.

ATTACHMENT

PROPOSED REPORT TO THE HOUSE BUDGET COMMITTEE

March 13, 1991

The Honorable Leon E. Panetta, Chairman
Committee on the Budget
204 O'Neil House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

This is in response to your letter of February 11, 1991. Set forth below are the views and recommendations of the Committee on Post Office and Civil Service. The President's Budget addresses three substantive areas of concern to the Committee: (1) imposition of a new $990 million liability on the United States Postal Service; (2) a reduction in the Revenue Forgone appropriation; and (3) Federal civilian employee pay.

These views and recommendations were circulated among the Members of the Committee and were approved by a majority of those Members.

New Postal Service Liabilities

The Budget proposes to require the Postal Service to pay over the next five fiscal years to funds administered by the Office of Personnel Management a total of $990 million; $660 million would be paid to the Civil Service Retirement and

Disability Fund; $330 million to the Employees Health Benefits Fund. In each of fiscal years 1992 through 1996 the Postal Service would be required to make payments totaling $198 million.

Last year, as required by the Budget Summit agreement, legislation was passed requiring the Postal Service to pay a total of $4.7 BILLION to these funds. Of this amount, $2.14 BILLION was intended as retroactive reimbursements for Civil Service Retirement System cost-of-living-adjustment benefits and health insurance benefits provided to Postal Service retirees (and their survivors) who retired on or after July 1, 1971 (the date of postal reorganization). These payments were amortized over fiscal years 1991 through 1995 with accrued interest at 5% beginning in fiscal year 1991. According to the President's Budget, the additional liability is due because "interest would accrue from the calculated date of the original liability" (as far back as 1971).

Last year's budget legislation represented the last step in eliminating the "hidden personnel subsidies" allegedly received by the Postal Service. The first step was taken with the Omnibus Budget Reconciliation Act of 1985. Further steps were taken with 1987 and 1989 budget legislation. Together, these acts will require payments by the Postal Service of almost $8 BILLION by the end of fiscal year 1995 (see, Attachment I).

There is no merit in this budget proposal. Any and all alleged "hidden personnel subsidies" have been addressed already. The Committee does not intend to act on this proposal.

Revenue Forgone

The Budget proposes $113 million in preferred rate "reforms". Preferred rate status would be terminated or restricted for: (1) second-class nonprofit mail with more than 10% advertising content; (2) third-class nonprofit mail with advertising that does not relate directly to the primary purpose of the organization; (3) third-class mail that contains "political advocacy material"; (4) educational material for organizations that are not schools; and (5) fourth-class library rates for commercial publishers. The Budget also proposes to cap the Revenue Forgone appropriation at $183 million.

The preferred rate "reforms" are the same as were proposed in last year's budget. The issue was considered and certain new restrictions on preferred rate eligibility were enacted (see, section 1, Public Law 101-509). The Committee does not plan to revisit this issue.

With respect to the cap on the appropriation, events have somewhat overtaken the Budget. As a result of the general postal rate increase which took effect in February, the Postmaster General requested a supplemental appropriation of $97,276,000 for fiscal year 1991, and a budget amendment asking for an additional $88,523,000 for fiscal year 1992 (see Attachment II). These additional amounts are now necessary to fully fund Revenue Forgone.

The Revenue Forgone appropriation subsidizes reduced postal rates for preferred mailers, e.g., churches, charities, in-county newspapers, educational institutions, and veterans' organizations. The term itself--"revenue forgone"--derives from the policy set by Congress long ago that certain types of "preferred mailers" are not to be charged the regular postal rates that most mailers are charged. The Postal Service "forgoes" collecting this revenue from the "preferred" mailers. The Congress then provides this forgone revenue by means of an annual appropriation to the Postal Service.

It is important to note that this appropriation is not an operating subsidy for the Postal Service. Rather, it is necessary to further Congressional policy that certain mailers should not pay the full rate.

If Congress does not provide a sufficient appropriation in any particular year, the Postal Service is empowered by law (39 U.S.C. 3627) to increase the preferred rates to the level necessary to make up the difference. If the Revenue Forgone appropriation is reduced as proposed in the Budget, the Postal Service will have no choice but to increase rates to make up the shortfall.

The overwhelming majority of revenue forgone dollars each year goes to the benefit of nonprofit organizations. These organizations, like all other mail users, experienced a rate increase February 3. For nonprofit mailers the increase averaged 28%. But unlike other mailers, preferred mailers are facing the likelihood of another rate increase due to a shortfall in the fiscal year 1991 Revenue Forgone appropriation caused by February's general rate increase. In addition, if the President's fiscal year Budget proposal is adopted the effect on rates for these mailers would be as follows:

TYPES OF MAIL	POSTAGE INCREASE
In County	
Rural Newspaper	16%
Second-Class Nonprofit	
Veterans' Magazine; Church Bulletin; University Publication; Labor Press	14.5%
Classroom	
Classroom Publication	14.2%
Third-Class Nonprofit	
Fundraising letter (e.g., Salvation Army; Crippled Children's Society; American Cancer Society)	33%

These increases would be additional to those experienced in February. The Committee will not support such increases for preferred mailers and favors appropriation of the full amount necessary to fully fund the Revenue Forgone appropriation.

Civilian Federal Pay

The Budget assumes a Federal employee pay raise of 4.2 percent in fiscal year 1992. This is consistent with pay reform legislation passed last year.

The Committee notes that the President's budget does not include funding for interim geographic adjustments beyond those already authorized for the New York, Los Angeles, and San Francisco Consolidated Metropolitan Statistical Areas.

The Committee points out that the Federal Employees Pay Comparability Act of 1990 grants the President broad authority to establish interim geographic adjustments. It has always been the expectation of the Committee that the President would use this authority to provide adjustments beyond the areas outlined in the Administration's original pay reform proposal.

The Committee further points out that several bills have been introduced to extend interim geographic adjustments to other areas. The Committee believes that these bills represent only a fraction of the areas that merit consideration for interim relief.

Sincerely,

William L. Clay
Chairman

	ACTUAL				ESTIMATE
	FY 1987	FY 1988	FY 1989	FY 1990	FY 1991
OBRA of 1985 :					
Post-9/30/86 Annuitant Health Costs	10,313	52,911	100,387	165,605 a/	220,000 a/
OBRA of 1987 :					
Payment to Civil Service Retirement Fund	0	350,000	0	0	0
Payment to Employees' Health Benefits Fund	0	160,000	270,000	0	0
OBRA of 1989 :					
Civil Service Retirement Annuitant COLA	0	0	0	73,632	66,951
OBRA of 1990 :					
Retroactive COLA and FEHBP Premiums b/	0	0	0	0	272,000
Current Year COLAs	0	0	0	0	322,000
Current Year FEHBP Premiums	0	0	0	0	116,000
FEHBP Reforms	0	0	0	0	(66,000)
	10,313	562,911	370,387	239,237	930,951

	ESTIMATE				
	FY 1992	FY 1993	FY 1994	FY 1995	Cumulative Totals
OBRA of 1985 :					
Post-9/30/86 Annuitant Health Costs	298,000 a/	377,000 a/	539,000 a/	737,000 a/	2,500,216 a/
OBRA of 1987 :					
Payment to Civil Service Retirement Fund	0	0	0	0	350,000
Payment to Employees' Health Benefits Fund	0	0	0	0	430,000
OBRA of 1989 :					
Civil Service Retirement Annuitant COLA	119,551	179,000	242,000	312,000	993,134
OBRA of 1990 :					
Retroactive COLA and FEHBP Premiums b/	313,000	378,000	472,000	705,000	2,140,000
Current Year COLAs	359,000	394,000	425,000	446,000	1,946,000
Current Year FEHBP Premiums	115,000	116,000	120,000	127,000	594,000
FEHBP Reforms	(190,000)	(234,000)	(264,000)	(297,000)	(1,051,000)
	1,014,551	1,210,000	1,534,000	2,030,000	7,902,350

a/ Effective FY 1990, includes survivors' health benefits pursuant to OBRA of 1989.

b/ Data reflects cash payments. The Postal Service will reflect the full impact of these amounts as an extraordinary cost in its FY 1991 Income Statement.

SOURCE: USPS

LETTER FROM SENATOR JOHN GLENN

The Honorable Jim Sasser
Chairman
Committee on the Budget
United States Senate
Washington, D. C. 20510

February 28, 1992

Dear Mr. Chairman:

Pursuant to your letter of February 11, 1992, I am submitting my views with respect to federal spending in the jurisdiction of the Governmental Affairs Committee and the Administration's proposed Fiscal Year (FY) 1993 budget.

As Chairman of the Committee, I remain deeply concerned about the size of the federal budget deficit. In 1990, this Committee received instructions to reduce the federal budget deficit by $2.165 billion in FY 1991 and $14.35 billion over five years (FY 1991-1995). The Committee exceeded those instructions and reported $2.322 billion in deficit reduction for FY 1991 and $14.485 billion in deficit reduction for fiscal years 1991-1995, which was enacted into law as part of the Budget Enforcement Act of 1990 (P.L. 101-508). These savings were achieved through Civil Service Retirement, Postal Service and general government reforms.

The President's FY 1993 budget addresses many areas of concern to the Committee: 1) the imposition of a new $945 million liability on the United States Postal Service; 2) a 75 percent reduction in the Revenue Forgone appropriation; 3) a reduction in the government's share of the cost of the Federal Employee Health Benefits Program (FEHBP); 4) a reduction in federal civilian pay; 5) an increase in the employee contribution rate for those in the Civil Service Retirement System; 6) the repeal of the current protection of cost-of-living adjustments (COLAs) for Federal retirees from sequestration; and 7) the elimination of the lump-sum retirement option.

United States Postal Service

The Omnibus Budget Reduction Act of 1990 requires the Postal Service to pay the federal government $4.7 billion over the next five years in order to fund Civil Service Retirement COLAS and Federal Employee Health Benefits for retirees and their survivors who retired after enactment of the Postal Reorganization Act of 1971. The President's budget proposes that the Postal Service produce another $945 million in order to pay accrued interest payments on these prior liabilities that were picked up by the Postal Service in 1990. In other words, the Postal Service would pay interest accrued back to the original date of liability, as far back as 1971.

In 1990, this Committee decided once and for all to eliminate any hidden personnel subsidies to the Postal Service. We said that we were putting this issue to rest. And, that is what we did. The Committee rejected this same proposal last year and opposes it again this year.

Revenue Forgone Appropriation

The Administration's budget proposes to cut the revenue forgone appropriation by 75 percent or $360 million. It proposes an arbitrary appropriations cap to produce a savings of $265 million. This proposal would require preferred-rate mailers to pay about 68 percent of the overhead costs allocated to their mail. The Administration also proposes to save $95 million in so-called "reforms" that would restrict eligibility for preferred rates. These "reforms" are the same as were proposed by the Administration in both its 1990 and 1991 budget. They were carefully considered and certain new restrictions on preferred rate eligibility were enacted into law. (P.L. 101-509)

This Committee has repeatedly rejected proposals to eliminate or drastically cut the special mailing rates long available to charitable and benevolent organizations. The revenue forgone appropriation is not an operating subsidy for the Postal Service. It is a long-standing Congressional policy that certain mailers -- e.g. churches, charities, in-county newspapers, educational institutions and veterans' organizations -- should not pay the full postal rate. These organizations experienced an average 28 percent increase in postal rates one year ago. This Committee does not support the Administration's budget proposals and does support full funding of the revenue forgone appropriation in FY 1993.

Federal Employee Health Benefits Program

The Administration's budget proposes several significant back door "reforms" of the Federal Employee Health Benefits Program (FEHBP). As part of next year's annual contract negotiations, it proposes to increase cost-sharing by FEHBP enrollees who are age 65 and older, by $75 million. In addition, in FY 1994, it proposes to cut the government's contribution to FEHBP by $231 million due to the expiration of the "proxy premium" authorized by Public Law 101-76.

Last year, this Committee successfully fought back an Administration attempt to "reform" the Federal Employee Health Benefits Program through contract negotiations. At that time, we asked for a legislative plan -- I might add that we have asked for such a proposal since 1989. In fact, the Committee notes that Public Law 101-76 directs that "No later than 180 days after the date of the enactment of this Act, the Director of the Office of Personnel Management shall transmit recommendations to the Congress for comprehensive reform of the Federal Employees Health Benefits Program." This deadline passed in February 1990. Two years later, there is no Administration proposal for comprehensive reform.

If the goal of health care reform is to make health care more affordable for working and retired Americans, the Administration's FEHBP proposals are a step backwards. They would administratively reduce benefits for retirees without making a corresponding reduction in premiums. They would increase premiums for employees. While the Administration correctly notes that the proxy premium will expire at the end of contract year 1993 under the terms of PL 101-76, under sections 8906 (a) and (b) of title 5, United States Code, the government's share of FEHBP premium costs must be determined

on the basis of the "Big Six" plans. Therefore, the Committee believes that the Administration has no sound legal basis for assuming that it may calculate the government's share of FEHBP premiums on the basis of premiums in effect for the remaining five plans. Moreover, there is no basis in fact for assuming that this Committee would report legislation, changing the formula, that would cut the government's contribution by $231 million.

Federal Civilian Pay

The President's budget proposes to delay for three months, the 1993 civilian pay raise to federal employees in order to save $460 million. While the budget does not officially propose to reduce the percentage of 1993 pay adjustment -- currently scheduled at 3.7 percent -- this would be the practical effect of the delay.

On November 5, 1990, the Federal Employees Pay Comparability Act (FEPCA) of 1990 -- which originated from this Committee -- was enacted into law (Public Law 101-509). One basic purpose of this law was to re-establish a wage system for the federal government that would eventually achieve pay comparability with the private sector by restoring order to the pay-setting process, which in recent years had been driven by budgetary concerns. FEPCA prescribes very specific conditions under which the President may alter the amount of a scheduled pay raise. During fiscal years 1992 through 1994, the President has discretion to alter the annual pay adjustment only in the event of war or economic conditions of two consecutive quarters of negative growth in the GNP. These provisions were developed jointly and agreed to by the Administration and Congress fifteen months ago. At that time, the Administration enthusiastically supported the bill. Clearly, reducing the scheduled pay raise by delaying it, violates the spirit of the law and frustrates one of its most basic purposes: to return to an orderly pay-setting process.

Civil Service Retirement

The Administration's budget proposes to increase the employee, but not the agency, contribution to the Civil Service Retirement System (CSRS) by one percent of base pay in January, 1993, and by an additional one percent in January, 1994. The Administration projects that these payroll tax increases would result in $5.1 billion in additional revenue over the next five years. The Committee is opposed to this proposal.

Less than five years ago, in 1987, Federal employees covered by CSRS were given the option to remain in CSRS or to transfer to the newly created Federal Employees Retirement System (FERS). In making these decisions, which were irrevocable, CSRS employees were required to weigh many different factors, including differences in annuity benefits and employee contribution rates. These employees have the right to assume that the Administration and the Congress will not change any of the key provisions of their retirement system for the purpose of deficit reduction. The Committee further notes that while the Administration proposes to raise payroll taxes for CSRS employees by 2 percent, it is opposed

to giving these employees a second opportunity to switch retirement systems.

Sequestration of Retiree COLAs

The Administration's budget proposes to eliminate the protection from sequestration provided to the cost-of-living adjustments civilian and military employees receive. However, it proposes retaining the protection from sequestration for Social Security COLAs. I do not believe that one group of older Americans, simply because they chose public service, should be deprived of the inflation protection that other older Americans receive from Social Security. I believe that the Congress recognized this when it amended the Gramm-Rudman Budget Deficit Reduction Act in 1986 to exempt the COLAs of Federal retirees from sequestration in the same way that Social Security COLAs are exempt. The Committee will not support this proposal.

Elimination of the Lump-Sum Retirement Option

The Administration's budget proposes to permanently eliminate the lump-sum retirement option for Federal employees in FY 1996. Under the terms of the Budget Enforcement Act of 1990, this retirement option was suspended for most Federal employees until October 1, 1995. Therefore, the Committee believes that the Administration's proposal is unwarranted at this time. The Committee further notes that the permanent elimination of the lump sum benefit would not reduce the Federal budget deficit in the long run. This is because initial outlays for the lump sum payouts are offset entirely by lower monthly pension outlays.

Sincerely,

John Glenn

John Glenn
Chairman

LETTER FROM REPRESENTATIVE WILLIAM L. CLAY

February 13, 1992

The Honorable Leon E. Panetta, Chairman
Committee on the Budget
204 O'Neill House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

Pursuant to section 301(d) of the Congressional Budget Act of 1974, there are transmitted herewith the views and recommendations of the Committee on Post Office and Civil Service concerning the major policy issues in the President's fiscal year 1993 budget which fall under this Committee's jurisdiction.

These views and recommendations were circulated among all the Members of the Committee and were approved by a majority of those Members.

Sincerely,

WILLIAM L. CLAY
Chairman

Committee on Post Office and Civil Service

Views and Recommendations

on Administration's FY 1993 Budget Proposals

I. FEDERAL EMPLOYEE PAY INCREASE

Administration Proposal: The President's budget proposes legislation to delay the January 1993 pay increase for Federal civilian employees until April 1993. The proposed delay is projected to save $460 million in fiscal year 1993. The pay increase delay would not apply to military personnel.

Committee Position: The Committee recommends rejection of the proposed pay increase delay. On November 5, 1990, the Federal Employees Pay Comparability Act (FEPCA) of 1990 was enacted into law (see section 529 of Public Law 101-509). The primary purpose of FEPCA was to establish a system that would eventually achieve

pay comparability with the private sector and to restore order and regularity to the pay-setting process, which in recent years had been driven purely by budgetary expedience rather than by concern for sound personnel management.

The establishment of an orderly pay-setting process was critical to achieving Congress's principal goal of pay comparability. FEPCA accomplishes this objective by establishing a specific mechanism for making annual adjustments in pay rates and by prescribing specific circumstances under which the President may alter the amount of a scheduled pay adjustment. During fiscal years 1992 through 1994, the President has the discretion to alter the annual pay adjustment only in the event of war or severe economic conditions, defined as two consecutive quarters of negative growth in the GNP. These provisions were developed jointly, and agreed to, by the Administration and the Congress only 15 months ago. Delaying the pay adjustment by three months would be contrary to the intent of FEPCA and would clearly violate the spirit of the agreement which led to enactment of FEPCA. Further, to the extent the pay raise delay disrupts the orderly pay-setting process established by FEPCA, Congress's goal of eventually achieving pay comparability through orderly pay adjustments is frustrated.

The Committee also believes that it is patently unfair to delay pay increases for civilian employees while providing pay increases to military personnel at the regularly-scheduled time.

II. CIVIL SERVICE RETIREMENT

Administration Proposal: The President's budget proposes legislation to increase the employee, but not the agency, contribution to the Civil Service Retirement System (CSRS) by 1 percent of base pay in January 1993 and by an additional one percent in January 1994. The Administration projects that the

increases would result in $400 million in additional contributions in 1993 and $5.1 billion during the period from 1993 to 1997.

Committee Position: The Committee recommends rejection of the President's proposal. In 1987, Federal employees covered by CSRS were given the option to remain in CSRS or to transfer to the newly established Federal Employees Retirement System (FERS). In making their decisions, which were irrevocable, CSRS employees were required to weigh many factors, including differences in the computation of the basic annuity under CSRS as compared to FERS, the differing formulas for determining cost-of-living adjustments, and the differing amounts of the employee contribution required to obtain these benefits. In view of the irrevocability of their decisions, these employees had the right to assume that Congress would not significantly alter any of the key provisions of their retirement system once their decisions had been made. The Committee believes, therefore, that it would be grossly unfair for Congress to change the rules after each of these employees has made such an important irrevocable decision. To do so at this time would severely damage the Federal Government's credibility as an employer.

The Administration estimates that the unfunded liability for CSRS is $660 billion and argues that the proposal to increase employee contributions would "moderately reduce" that liability. The Committee points out that the President's budget estimates that this proposal would reduce the unfunded liability by $5.1 billion over five years -- an amount which is less than one percent of the unfunded liability. The Committee also notes with some perplexity that the President has not proposed corresponding increases in the agency contribution to CSRS which, of course, would also result in a reduction in the unfunded liability of the system. The Committee believes that this proposal is not a serious effort to reduce the CSRS unfunded liability, but is merely another attempt to reduce the budget deficit at the expense of Federal employees.

III. THE FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM

Administration Proposal: The President's budget proposes two administrative actions to be taken by the Office of Personnel Management and one legislative action. The Administration believes that these actions, taken together, will result in $160 million in savings from the Federal Employees Health Benefits Program (FEHBP) in fiscal year 1993.

One of the proposed administrative actions to be taken by OPM involves limiting FEHBP reimbursements of Medicare-covered annuitants to the Medicare fee schedule. Under this proposal, if a Medicare-covered FEHBP enrollee uses a Medicare non-participating provider, the enrollee would now be liable for charges above the Medicare schedule. The other administrative proposal would eliminate the waiver of deductibles and coinsurance on prescription drugs for Medicare-covered annuitants. The legislative proposal would apply the Medicare Part B limiting charges to all retirees 65 years of age and older who do not participate in Medicare.

Committee Position: The Committee has serious concerns with the President's proposals and is studying these proposals very closely. The Committee continues to believe that any changes in the FEHBP short of total reform of the program will not satisfactorily address the program's severe structural problems.

During the 101st Congress, the Committee received reports from the Congressional Research Service (CRS) and the General Accounting Office (GAO) concerning reform of the FEHBP and held extensive hearings on comprehensive reform of the program. During the 102d Congress, the Committee has received additional reports from GAO, has continued to work with the CRS regarding FEHBP reform, and has retained the services of health care consultants to conduct an independent review of the program and to make recommendations concerning various reform options. In addition, the Committee is

considering H.R. 1774, the Federal Employees Health Benefits Reform Act of 1991, which would make substantive and comprehensive changes in the FEHBP. The Committee also expects to consider the Administration's comprehensive reform proposal when it is submitted. The Committee intends to conduct additional hearings on the FEHBP and is working on developing comprehensive reform legislation.

The President's fiscal year 1993 budget proposals are no substitute for needed FEHBP reform. The Committee notes that Public Law 101-76 directed that "No later than 180 days after the date of the enactment of this Act, the Director of the Office of Personnel Management shall transmit recommendations to the Congress for comprehensive reform of the Federal Employees Health Benefits Program". That deadline passed in February 1990. As of February 1992 the Congress still has not received an Administration proposal for comprehensive reform of the FEHBP.

The budget's administrative and legislative proposals represent a significant departure from the FEHBP's long-standing treatment of enrollees 65 years of age and older. The administrative proposals will reduce FEHBP benefits for this group of enrollees without making a corresponding reduction in premiums. The Administration estimates that the imposition of the Medicare fee schedule on enrollees who participate in Medicare would result in $40 million in projected savings, and the prohibition of a waiver of deductibles and coinsurance for prescription drugs would yield $35 million in savings. As a result of these administrative actions, a significant portion of this $75 million in projected savings will be absorbed by retirees in the form of greater out-of-pocket costs, again, without any corresponding reduction in premiums. In the absence of comprehensive reform, the Committee believes that these proposals are premature.

The Committee also notes that past administrative actions in the Federal employees' health benefits area have not always

resulted in quantifiable benefits for either plan enrollees or the program in general.

According to the Administration, enactment of its legislative proposal would save an estimated $85 million. This proposal would prohibit doctors from charging non-Medicare retirees more than they charge Medicare patients and, if properly enforced, could reduce the out-of-pocket costs for non-Medicare retirees. However, the Committee is very concerned that annuitants may be left unprotected from charges which exceed the Medicare fees because the Administration does not specify any mechanism to enforce the fee limitations outlined in the budget proposals. Moreover, the cost of introducing these changes in the administration of FEHBP is a concern. The Committee also is interested in examining any problems that have arisen from the application of Medicare Part A to this same group of retirees, which became effective January 1, 1992.

IV. FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM BASELINE ASSUMPTION

Administration Assumption: The Administration assumes that, in fiscal year 1994, the FEHBP current services baseline will be reduced by $231 million due to the expiration of the "proxy premium" authorized by Public Law 101-76, as amended by section 7002(e) of Public Law 101-508. After the 1989 announcement by the Aetna Life Insurance Company that it would cease sponsoring the Government-wide Benefit Indemnity Plan in 1990, Congress established the proxy premium to take the place of the Aetna premium in the formula used to determine the Government's share of the FEHB premiums. By statute, the indemnity benefit plan is one of six plans (the "Big Six") used in the formula to determine the Government's share of the FEHB premiums. The Administration

assumes that, since authorization for the proxy premium will expire at the end of contract year 1993, the FEHBP baseline thereafter will be calculated by a formula using the remaining five premiums.

Committee Position: While the proxy premium will expire at the end of contract year 1993 pursuant to existing law, the requirements of sections 8906(a) and (b) of title 5, United States Code, that the Government's share of the FEHB premiums be determined on the basis of the premiums in effect for the "Big Six" plans will remain in effect. The Committee believes, therefore, that the Administration has no sound legal basis for assuming that it may calculate the Government's share of FEHB premiums on the basis of the premiums in effect for the remaining five plans. Furthermore, using the premiums of the "Big Five" plans is not an acceptable assumption since it does not meet the requirement, as specified in the Budget Enforcement Act of 1990 (Public Law 101-508), that the baseline is to be calculated according to "laws enacted through the applicable year". (emphasis added)

V. ELIMINATION OF LUMP-SUM RETIREMENT OPTION

Administration Proposal: The President's budget proposes to permanently eliminate the lump-sum retirement benefit for Federal employees authorized under sections 8343a and 8420a of title 5, United States Code. The proposal would take effect at the beginning of FY 1996.

Committee Position: Under section 7002 of the Omnibus Budget Reconciliation Act of 1990 (Public Law 101-508), the lump-sum retirement option was suspended for most Federal employees until October 1, 1995. The Committee believes that any consideration of the President's proposal at this time would be premature. Therefore, the Committee does not intend to consider the legislative proposal this year.

VI. NEW POSTAL SERVICE LIABILITIES

Administration Proposal: The President's budget proposes to require the Postal Service to pay over the next three fiscal years to funds administered by the Office of Personnel Management a total of $945 million for the Employees Health Benefits Fund and the Civil Service Retirement and Disability Fund. In fiscal years 1993, 1994, and 1995, the Service would make payments of $315 million.

This new liability is similar to that proposed in last year's budget. This year the new liability consists predominantly of past interest (1971 - 1991) and a further payment for annuitants' COLA and health benefits. As a result of the Budget Summit agreement for 1990, legislation was passed which required the Postal Service to pay $2.14 billion for COLA and health benefits for annuitants who retired on or after July 1, 1971 (the official date of postal reorganization). This payment was designed to satisfy the past liabilities of the Postal Service for its annuitants and their survivors.

Committee Position: As the Committee explained last year, the 1990 Omnibus Budget Reconciliation Act "represented the last step in eliminating the 'hidden personnel subsidies' allegedly received by the Postal Service." Starting with the Omnibus Budget Reconciliation Act of 1985, the Postal Service will have paid by fiscal year 1995 almost $8 billion to reimburse the Treasury for "hidden subsidies". The budget agreement for 1990 closed the book on that issue. The Postal Service has paid its debt, and the Committee does not intend to act on this proposal.

VII. REVENUE FORGONE

Administration Proposal: The President's budget proposes to reduce the revenue forgone appropriation by $360 million--$95 million by narrowing eligibility for these subsidized rates (preferred rates) and $265 million by capping the appropriation. The proposal would terminate eligibility for preferred postage rates for: (1) second-class nonprofit mail (periodicals, newspapers and magazines) with more than 10% advertising content; (2) third-class nonprofit mail containing advertising or "political advocacy material;" (3) third-class nonprofit mail containing educational material from organizations that are not schools; and, (4) library rate material from commercial publishers.

Committee Position: The revenue forgone appropriation reimburses the Postal Service for lost revenue due to charging certain mailers less than the full postage rate. In-county newspapers, classroom publications, church bulletins, veterans' publications, and non profit group fundraising solicitations all benefit from this reduced postage. If the appropriation is reduced, the Postal Service has the authority (39 U.S.C. 3627) to increase preferred rates to compensate for the appropriation reduction. Thus, the mailing organizations, not the Postal Service, pick up any revenue forgone reduction.

These Administration proposals concerning the restriction of eligibility for preferred rates were included in the proposed budgets for 1991 and 1992. These particular proposals have been fully considered recently and rejected while certain other meritorious restrictions were enacted in Public Law 101-509. The proposed restrictions place an administrative burden upon the Postal Service. Mail acceptance clerks cannot be expected to determine whether the mailer is or is not a school. Thus,

enforcement will rest upon costly case-by-case review after the fact. The Committee does not plan to reexamine this issue.

The effect of the $265 million reduction in the revenue forgone appropriation will fall in most cases on nonprofit organizations. These organizations experienced an average 28% increase in postal rates one year ago. The appropriation reduction will compound that increase. If the President's proposal is adopted, mailers would face the following rate increases:

TYPES OF MAIL	POSTAGE INCREASE
In County	
Rural Newspaper	13%
Second-Class Nonprofit	
Veterans' Magazine*; Church Bulletin; University Publication; Labor Press*	13%
Classroom	
Classroom Publication	13%
Third-Class Nonprofit	
Fundraising letter (e.g., Salvation Army; American Cancer Society; Crippled Children's Society; Church Charity)	18%

* This publication might be ineligible under the eligibility restriction proposal.

In addition, non letter-shaped nonprofit third-class mail was assessed a 2.2 cent per-piece rate increase in the 1991 appropriations act which was over and above the 28% general rate increase. Those same mailers face another 2.2 cent per-piece increase on October 1, 1992, which would be over and above the 18% increase from the proposed appropriation reduction.

In light of the heavy impact of the President's proposals upon nonprofit organizations which seek to assist the American public, the Committee does not support the proposals and favors appropriation of the full amount necessary to fully fund the Revenue Foregone appropriation.

VIII. FEDERAL HOLIDAY COMMISSIONS

Administration Proposal: The President's budget proposes a funding level of $300,000 for the operation of the Martin Luther King, Jr. Federal Holiday Commission, and $220,000 for the operation of the Christopher Columbus Quincentenary Jubilee Commission.

Committee Position: The Committee strongly supports full funding for both the Martin Luther King, Jr. Federal Holiday Commission and the Christopher Columbus Quincentenary Jubilee Commission.

Under Public Law 101-30, the King Holiday Commission is authorized to receive $300,000 annually. While the Commission must still raise funds from private sources to meet its staffing and operational needs, an appropriation of $300,000 will greatly enhance the Commission's ability to carry out its mission. The Commission has successfully met its mandate through the years. However, a lack of sufficient funds makes that work quite difficult.

1993 will be a historic year for the King Holiday Commission. That year will mark the 10th anniversary of the establishment of the national holiday in honor of Dr. King's birthday; the 25th anniversary of Dr. King's assassination; and the 30th anniversary of the historic "I Have A Dream" speech at the Lincoln Memorial. Consequently, the Commission's workload will increase measurably in fiscal year 1993. Full funding will be necessary to ensure that the King Holiday Commission can meet its programmatic goals.

1993 also will be an important year for the Christopher Columbus Quincentenary Jubilee Commission. It will be the last full fiscal year of authorization for the Commission. While the Quincentenary Commission also must raise private funds to support its wide range of programs, a full Federal appropriation ensures

the Commission will be able to meet its primary expenses such as staff salaries, rent, and other administrative costs.

The Quincentenary Commission has received Federal funding since its establishment in 1984. The $220,000 appropriation in its final year of operations will ensure that the Commission completes the mission envisioned by Congress.

IX. BUREAU OF THE CENSUS

Administration Proposal: The President's budget proposes $338.4 million for the Bureau of the Census. The request includes an increase of $12 million over fiscal year 1992 funding levels for the Economic Statistics Initiatives and $9 million for 2000 decennial census planning. It also includes substantial increases for the Economic Censuses and the Census of Agriculture.

Committee Position: The Committee recommends funding for the Census Bureau at the level requested by the President.

The Bureau has begun its planning for the 2000 decennial census. A task force involving statisticians, demographers, public officials, program administrators, social scientists, and representatives of civic organizations, has begun a comprehensive review of census methods and data needs.

The General Accounting Office, in testimony before this committee, has continuously stressed the need for fundamental, rather than incremental, reform of the census process. That goal can only be accomplished with early and comprehensive research, testing, and planning of alternative census designs.

The Committee also supports the proposed improvements in the Census Bureau's economic statistics programs. Given the current recession and concerns about this nation's ability to remain competitive in the global marketplace, the importance of accurate, useful, and timely statistics on the service sector, international

payments and investment flows, and the National Income and Product Accounts (to name a few areas) is heightened.

Fiscal year 1993 also is the fourth year in the six-year cycle for both the Economic Censuses and the Census of Agriculture. Both censuses are taken every fifth year, and fiscal year 1993 is the data collection year for both surveys.

LETTER FROM REPRESENTATIVE WILLIAM D. FORD

October 15, 1990

Honorable Leon E. Panetta
Chairman
Committee on the Budget
U.S. House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

Transmitted herewith is legislative language which, if enacted, would achieve the savings which the Committee on Post Office and Civil Service was instructed to achieve pursuant to H. Con. Res. 310, Concurrent Resolution on the Budget, Fiscal Year 1991 (Budget Resolution). Also transmitted herewith for inclusion in the Budget Committee's report are a section analysis and cost savings estimates of the Congressional Budget Office. By a voice vote, the Committee ordered this language reported unfavorably to the Committee on the Budget.

The policy assumptions underlying the savings required from this Committee's jurisdiction by the Budget Resolution are virtually identical to those agreed to in the Bipartisan Budget Summit agreement. The numbers are identical. The Budget Summit, in turn, essentially adopted proposals contained in the President's Budget -- eliminate the "lump-sum" retirement benefit, cut back on the Federal Employees Health Benefits Program, and impose substantial new liabilities on the Postal Service. In essence, the Budget Resolution instructs this Committee to report legislation implementing the President's Budget proposals, proposals which this Committee has previously rejected (See, letter of February 28, 1990, to Chairman Panetta, copy enclosed.)

According to the Congressional Budget Office, the enclosed legislative language will achieve the first-year and five-year savings contemplated by the Budget Resolution. The legislative language, generally, reflects the policies underlying agreements reached in the Bipartisan Budget Summit and carried forward in the Budget Resolution, i.e., eliminating the "lump-sum" retirement benefit, requiring substantial Postal Service payments to the Civil Service Retirement and Disability Fund (Retirement Fund) and the Employees Health Benefits Fund (Benefits Fund), and mandating changes in the Federal Employees Health Benefits Program (FEHBP). In developing the legislative language, the Committee did deviate to some extent from the Budget Summit policy assumptions where it could mitigate the unduly harsh and unfair results of those policies while still achieving the required savings.

Despite its best efforts to mitigate the effects of these policies, a motion to report this language favorably was defeated 0-23. It is fair to say that not a single Member of this Committee believes this legislative language should be enacted.

"Lump-Sum" Retirement Benefit

The Budget Summit Agreement assumed elimination of the lump-sum retirement benefit which permits retirees to elect an alternative form of annuity upon retirement (individuals retiring on or before October 31, 1990, would not be affected). The legislative language would suspend the benefit for five years. Individuals retiring on or before October 31, 1990, or after September 30, 1995, would not be affected. The legislative language also continues the 50/50 lump-sum benefit for employees 65 years or older who retire with 30 or more years of service. It also ensures that those entitled to the so-called 50/50 lump-sum payments will receive those payments in two calendar years (for tax purposes).

While repeal of the lump-sum payment option results in immediate outlay savings, the truth of the matter is that, despite its endorsement by the Budget Summit, this budget proposal does not constitute true deficit reduction. In fact, the Congressional Budget Office will "score" the lump-sum "savings" only if the statute invalidating such payment shifts is waived. Employees who opt for the lump-sum withdrawal of their retirement contributions have their retirement annuities permanently reduced over their lifetimes. Lump-sum withdrawal of Federal employee contributions at the time of retirement was designed to alleviate a portion of the burden retroactively imposed on Federal retirees by the repeal of the "three-year recovery rule" in the Tax Reform Act of 1986 (P.L. 99-514). In formulating the lump-sum option, Congress intended that retirees would be permitted to receive a return of previously taxed employee contributions and a reduced annuity.

The repeal of the lump-sum option results in the payment of unreduced, and therefore larger, annuities to all retirees and, obviously, greater outlays in subsequent years from the retirement fund. What this repeal proposal accomplishes, therefore, is merely a swap of long-term retirement fund savings for an immediate reduction in outlays. In the meantime, Federal employees who have counted on having the lump-sum option available to them at the time of retirement are, once again, called upon to relinquish, in the name of deficit reduction, a valuable benefit on which they had a right to rely under their contract of employment.

Postal Service FEHBP Liability

The Budget Summit Agreement assumed that, commencing in fiscal year 1991, the Postal Service will pay the employer share of the FEHBP premium for every individual who retired after Postal Reorganization (June 30, 1971), and for survivors of those individuals.

The legislative language requires the Postal Service to pay the employer FEHBP premium for those who retired after June 30, 1971 (and their survivors), but prorates the Postal Service's liability to reflect only that portion of total service performed as an employee of the Postal Service. The proposal also requires the Postal Service to make additional payments to reflect the payments which would have been made had this provision been in effect since Postal Reorganization.

Postal Service CSRS Liability

The Budget Summit Agreement assumed the Postal Service Civil Service Retirement System (CSRS) employer contribution will increase from the current amount of 7 percent of employee pay to 11.7 percent in fiscal year 1994 and 14 percent in fiscal year 1997.

The legislative language requires the Postal Service to fund CSRS cost-of-living adjustments for postal retirees (and their survivors) who retire after Postal Reorganization (June 30, 1971). The Postal Service's liability would be prorated to reflect only that portion of total service performed as an employee of the Postal Service. The proposal also requires the Postal Service to make additional payments to reflect the payments which would have been made had this proposal been in effect since Postal Reorganization.

The postal policies originally proposed in the President's Budget and carried forward by the Budget Summit and the Budget Resolution are unfair and unwise.

During consideration of the Postal Reorganization Act of 1970 (PRA), legislation proposed by the Administration of President Nixon, postal employees and their representatives were understandably concerned about the future of retirement benefits. The Congress and the President were considering a grand experiment -- the transition of a highly-subsidized Government agency into a quasi-independent Government corporation required to pay its own way, i.e., to operate without the benefit of taxpayer subsidies.

Many postal employees had invested ten, twenty, or even thirty years of their lives working for a Government agency -- the Post Office Department. In return, those employees had expectations of adequate pensions and employer-financed health insurance upon retirement. What would happen to these earned benefits if the grand experiment failed and the new postal corporation could not pay its own way?

A deal was struck between the Congress, the Nixon Administration, and postal employees. In return for their support for postal reorganization, employees were promised a significant pay raise. More importantly, those benefits which they expected to receive upon retirement were protected. The Postal Reorganization Act of 1970 provided that employees of the new postal corporation would continue to be covered by the Civil Service Retirement System and the Federal Employees Health Benefits Program, and the new postal corporation would be required to fund these benefits to the same extent that Government agencies were so required. Postal employees would have the security of having retirement benefits paid from Government-wide programs. Benefits anticipated in retirement would not be wholly dependent on the success of the new postal corporation. And since CSRS and FEHBP benefits paid during retirement were heavily subsidized by the Treasury, the cost to the new corporation of continuing CSRS and FEHBP coverage for postal employees was not overly burdensome.[1]

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[1]For Government agencies, this subsidization continues today. The employer cost of health benefits paid during retirement is funded by the General Treasury (not Government agencies) as are increased retirement benefits attributed to Government pay raises. In the case of retirees of Government agencies (and their survivors) no funding is provided for cost-of-living adjustments.

Finally, the PRA included a statutory mandate that employee benefits be protected. It provided that "[c]ompensation, benefits, and other terms and conditions of employment in effect immediately prior to [postal reorganization] . . . continue to apply . . . until changed" through collective bargaining. Further, "[n]o variation, addition, or substitution with respect to fringe benefits in effect [at the time of postal reorganization] shall result in a program of fringe benefits which on the whole is less favorable to officers and employees than the fringe benefits in effect [at the time of postal reorganization]" (see, 39 U.S.C. 1005(f)).

In the years since postal reorganization, the Congress and three Republican Presidents have reneged on the commitment to protect postal retiree benefits on four occasions. In 1974, the law was amended to require the Postal Service to pay to the Civil Service Retirement and Disability Fund amounts necessary to retire any unfunded liability created by postal employee pay raises. No Government agency was or is so required.

In 1985, the law was amended to require the Postal Service to pay into the Benefits Fund amounts to pay the employer's share of the premium for postal retirees' Federal health insurance. Again, no Government agency was or is required to make similar payments. In 1987, the law was amended to require the Postal Service to pay $350 million and $430 million to the Retirement Fund and the Benefit Fund, respectively. Finally, in 1989, the law was amended to require the Postal Service to pay to the Retirement Fund amounts necessary to retire any unfunded liability attributable to CSRS cost-of-living adjustments for postal employees (and their survivors) who retired after September 30, 1986. Again, no Government agency was or is required to make similar payments. The 1985, 1987, and 1989 changes have resulted in payments by the Postal Service to the Treasury of more than $4.7 BILLION.

This year, the President's Budget proposed massive additional Postal Service payments for claimed CSRS and FEHBP liabilities. And, the Budget Summit and resulting Congressional Budget Resolution instruct this Committee to impose additional liabilities in excess of $5 BILLION on the Postal Service over the next 5 years. If this is done, the promise made to the Postal Service and its employees in 1971 will have been completely broken.

If this promise is broken, action should be taken to ensure the costs imposed upon the Postal Service by the budget process will be fully recouped through the postal rate making process. The legislative language ensures that postal rates will be increased above the levels which otherwise would exist by an amount sufficient to recover the full costs imposed by the Budget Summit process. The legislative language should add an additional penny to increases in First Class rates which would otherwise occur during the five-year period. Rates for other classes would experience proportionate increases.

Reforms in the Federal Employees Health Benefits Program

The Budget Summit Agreement assumed extending Medicare payment limits to Federal retirees who participate in the Federal Employees Health Benefits Program (FEHBP) but who are not Medicare-eligible. Under the administration's draft proposal, physicians and hospitals would be limited to charging non-Medicare eligible FEHBP enrollees (annuitants) no more than Medicare limits.

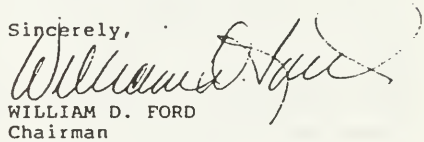
Implementation of this proposal would undoubtedly affect premium levels and enrollee selection behavior in future years. The potential impact of the initiative on any shifting of costs between the Federal Government employer and enrollees is uncertain. While reserving judgment on the relative merits of this administration proposal, the Committee once again notes the pendency of legislative efforts to overhaul this employer-sponsored health insurance program which presently finds the Federal Government at a competitive disadvantage as private sector plans outpace the Government's effort by an estimated $1100 per employee.

The legislative language in the package submitted pursues a different avenue for savings from the health benefits program by mandating a series of administrative reforms originally proposed by the Office of Personnel Management in March 1990. In order to meet the savings targets charged to the Committee, the legislative language requires that FEHBP carriers implement cost-containment measures; mandates cash management controls in administering payments from the Employees Health Benefits Fund; exempts the FEHBP from state premium taxes; and requires improved coordination between the Office of Personnel Management and the Department of Health and Human Services in order to ensure that Medicare's payments and limits can be correctly applied when the FEHBP carrier makes a secondary payment. On balance, when measured against other alternatives, these initiatives can be expected to have a less adverse impact on Federal employees, annuitants, and their dependents who rely upon the Federal Employees Health Benefits Program for their health care financial protection.

After a decade of being a deficit reduction target and suffering better than $120 billion in cuts in civil service pay and benefit programs alone, the Committee finds itself in a dilemma. The uncertainty of this year's budget deliberations and the on-again off-again strains of imminent furloughs and sequestration has taken its toll on the Federal Government's work force like no other constituency. But, the much-heralded solution offers little solace: further retrenchment of employee benefits.

The attraction of Federal Government employment has long lost its luster except for those most committed to the common good. If it is true that only enactment of the Budget Summit Agreement can sustain our form of national government, it is the Committee's hope that someone will still be willing to come to work after the abuses heaped on the nation's Federal civil service scapegoats.

Sincerely,



WILLIAM D. FORD
Chairman

SUBMITTED QUESTIONS

Senator DECONCINI. Thank you, Mr. General, very much for your testimony today. We will submit additional questions to be answered for the record.

Mr. RUNYON. Thank you.

[The following questions were not asked at the hearing, but were submitted to the agency for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR DeCONCINI

REVENUE FORGONE APPROPRIATIONS

Question. Was any thought given to phasing in these eligibility requirements to give these groups an opportunity to adjust to the eventual elimination of subsidized rates?

Answer. We recognize that mailers who are required to pay commercial rates due to the eligibility changes could receive substantial rate increases. Balanced against this, however, is the fact that the proposed changes are grounded in Congressional concerns regarding the advocacy and commercial content in subsidized mail. Phasing would appear to be at odds with a frequently expressed desire immediately to eliminate these "abuses" of preferred rate privilege.

If Congress wished to phase in the rate increases for mailers losing their preferred rate eligibility, this could certainly be accomplished. It must be remembered, however, that the savings associated with the Postal Service proposal would be reduced during the phasing period, leaving us in the difficult position of incurring losses for mail that Congress no longer wishes to subsidize.

Question. The Postal Service's proposal would apply commercial rates to any issue of a nonprofit second-class publication with an advertising content of more than 10 percent. Would this not place an unfair burden on rural in-county mailings of small and local publications?

Answer. No. The advertising provisions would not affect in-county newspapers. We recognize that these newspapers rely substantially on ads for their revenues and the newspapers are one of the primary, if not the only means for small, local businesses to advertise within their communities. Therefore, the 10 percent limit does not apply to these newspapers. In fact, we have not proposed any eligibility changes for in-county newspapers.

Question. If the Postal Service were to be responsible for determining which groups were eligible for preferred rates, would you have adequate staffing to handle this responsibility? If not, what would this require?

Answer. The Postal Service is responsible now for the actual implementation of preferred rate eligibility, as we are the party that collects postage from mailers based on whatever the requirements are, regardless of who developed them.

Whether the Postal Service is adequately staffed to determine preferred rate eligibility depends upon whether the eligibility criteria are straightforward and clear enough to be applied consistently by 30,000 post offices. Our concern is that if the requirements are designed by parties who are not sensitive to the pressures faced daily by these post offices, considerable additional resources would be diverted from the task of moving the mail. Even then, we could not guarantee that nebulous concepts such as "relatedness" and "advocacy" could be quickly and consistently applied throughout the country.

Question. If revenue foregone is not reformed and funded at about the same level as fiscal year 1993, what would the subsidized rate be adjusted to for all categories of preferred class mailers?

Answer. The attached table shows the rate increases for eight typical mailings. The table is followed by a more detailed description of the mailing.

REVENUE FORGONE – PREFERRED RATES APPROXIMATIONS (CENTS)
AT FUNDING LEVEL OF FY 1993 – $122 MILLION
FY 1994 Request for $531 Million -- Illustrative Examples 1/

Class of Service	Current Rates	Rates at funding level of $122 million
Second–Class Publications		
In County	7.0	8.8 25%
Nonprofit	12.8	15.5 21%
Classroom	17.3	21.0 22%
Science of Agriculture	15.8	16.2 3%
Third–Class Nonprofit		
Carrier Route Presort	5.2	7.8 50%
Presort to Five Digits	8.1	10.7 32%
Required Presort (Flat–sized Pieces)	16.4	19.2 17%
Fourth–Class Library Rate	137.0	142.2 4%

1/ See next page for the description of the illustrative examples.

DESCRIPTION OF ILLUSTRATIVE PREFERRED RATE EXAMPLES

SECOND-CLASS PUBLICATIONS

In-County

Rural Newspaper:
Frequency: Weekly
Weight: 5 Ounces
All Delivered in County
Presorted to Carrier Route
Entered at Delivery Office

Nonprofit

Veterans' Magazine
Frequency: Monthly
Weight: 4 Ounces
Advertising: 20%
New York to Pittsburgh
Presorted to 5 Digits

Classroom

Classroom Publications
Frequency: Weekly
Weight: 10 Ounces
Advertising: 15%
New York to Chicago
32 Copies per Piece
Presorted to 5 Digits

Science of Agriculture

Rural Agricultural Newspaper
Frequency: Weekly
Weight: 4 Ounces
Advertising: 50%
Within 150 Miles of Entry
Presorted to 5 Digits
Entered at Destination SCF

THIRD CLASS NONPROFIT

Carrier-Route

Fund-Raising Letter
Weight: 3/4 Ounce
Local Distribution
Presorted to Carrier Route
Entered at the Delivery Office

Presort to Five Digits

Fund-Raising Letter
Weight: 2 Ounces
Nationwide Distribution
Presorted to 5 Digits
Barcoded

Required Presort - Flat Sized Pieces

Fund-Raising Letter in Large Envelope
Weight: 1.5 Ounces
Nationwide Distribution
Required Presort Only

FOURTH CLASS

Library Rate

Books between Libraries
Weight: 3.5 Pounds
New York to Chicago

Question. If Congress again prohibits the Postal Service from raising these rates, what effect would this have on base operations and staffing of the Postal Service?

Answer. As discussed in my testimony, in the event of an appropriations cut, the Postal Service is left with several options. We can cut existing services or, in effect, cut future service levels by stopping the construction of post offices or the purchase of equipment. At one point, we cut service levels in response to Congressional budget restrictions. The public did not like it. Congress did not like it and frankly, as a service organization, we found that action distasteful. The second alternative, the postponement of badly need post office

construction and equipment purchases only serves to weaken the Postal Service in the future.

The final response we are left with is to raise rates for other customers. As we have frequently indicated, such rate increases result in reduced volume growth or actual volume declines, causing the Service's fixed costs to be spread over fewer pieces and causing even higher rates. Moreover, for the past year the Postal Service has reorganized and postal employees have worked diligently to control costs and forestall the next rate increase. Much of the results of these efforts will be negated by the proposals under consideration.

RECYCLED MAIL

Question. There has been some interest in Congress on trying to eliminate the impact of mail on the environment. Representative Charles Hayes (D-IL), then Chairman of the House Subcommittee on Postal Personnel and Modernization, Representatives Nancy Pelosi (D-CA), and Richard Durbin (D-IL) asked the Postal Rate Commission to "conduct an inquiry into the feasibility of reduced rates or other financial incentives for mailers who use recycled paper."

a. Does the Postal Service itself have a recycling program in effect, if so, can you explain it?

Answer. The Postal Service is committed to a nationwide pollution prevention program designed to improve environmental quality and set a positive example for residents and private businesses in every community that we serve. Recycling is a major component of that program.

Recycling programs have been established throughout the country to reduce the volume of the waste that we dispose of. Produce currently being recycled include office paper, undeliverable bulk business mail, pallets, plastic, aluminum, glass, steel, oil, solvents,antifreeze, batteries and tires. A model solicitation for the selling of recyclable waste materials has been developed, a preference program for purchasing paper and paper products made from recycled materials has been established and the Postal Service is working with paper and mailing industries to make mail more environmentally friendly and to reduce the amount of undeliverable mail.

A number of postal facilities have been recognized for the excellence of their recycling programs; the latest was the La Porte TX Post Office which received a special award from the Governor of Texas on April 13, 1993.

b. Do you feel there is a need to address this issue of the effect of mail on the environment and if so, what forum should be used to address it?

Answer. Yes. The Postal Service is addressing the issue of the effect of mail on the environment in a variety of ways.

The Postal Service and the printing, paper, magazine and direct mail industries are active in accelerating efforts to resolve issues associated with waste paper, including mail. The Postal Service is a member of the Council on Paper Waste Management, sponsored by the Print Communications Industries. This group is composed of 28 trade associations which represent all segments of print communications. The Council was formed in late 1990 to help its members more fully understand and respond to the multitude of complex issues which are involved in the proper management of wastepaper. The Postal Service is also an active member of the American Society for Testing Materials and participates in several interagency committees on recycling and pollution prevention. These cooperative efforts have helped resolve problems associated with paper recycling. According to statistics from the American Paper Institute and Franklin Associates, by the mid-1990's, for the first time, more paper will be recovered in this country for recycling than will be sent to landfills.

The Postal Service and the direct marketing industry also are involved in a variety of efforts to education direct marketers about ways to lessen the environmental impact of mail.

If a public forum on this issue is warranted, a Postal Service request for comments in the Federal Register would be the most appropriate.

c. What do you think is the feasibility of reduced rates or other financial incentives for mailers who use recycled paper?

Answer. Rates for mail printed on recycled paper would be very difficult to administer. There is no way to visually verify that paper has recycled content, whether the recycled content meets the minimum requirements, whether that recycled content is pre- or post-consumer, or whether the mail can be recycled. The Postal Service could either have to accept the mailer's statement that the mail is printed on the appropriate recycled/recyclable paper or conduct expensive, time consuming paper analysis as part of a verification process. Adding a rate for mail with recycled paper content would complicate and possibly delay acceptance of mail.

The issue of verification is further complicated by the fact that First-Class Mail is sealed against inspection. Finally, if mail acceptance personnel are unable to detect matter improperly entered at recycled rates, the Postal Service will be required to use port-acceptance procedures, such as revenue deficiency assessments, to collect the proper amount. Past experience has shown that these procedures are cumbersome for the Postal Service and annoying for the customer.

d. If it is feasible, how might reduced rates or other financial incentives for mailers who use recycled paper be designated?

Answer. As discussed in our previous response, we do not believe it is feasible to provide rates for mail with recycled paper content.

RESTRUCTURING OF THE POSTAL SERVICE

Question. Mr. General, I would like to take this opportunity to commend you for "taking the bull by the horns" and instituting a plan to restructure the Postal Service and move it towards a solid financial position. I sincerely commend you for your leadership. However, the reorganization has raised concerns about service and labor.

I understand you have eliminated 30,000 postal positions since you took over at the helm of the Postal Service.

a. What has happened to the people who occupied these 30,000 positions?

Answer. The occupants of the 30,000 overhead positions which were eliminated have either left the Postal Service during last fall's special retirement option or are in the process of being placed in positions in the new organization.

b. Has the elimination of these positions adversely affected the operation or the service provided by the Postal Service in any way?

Answer. Our customers have consistently told us that they have not experienced any deterioration in service during this period. Moreover, our most recent Customer Satisfaction Index was the highest ever-89%.

c. What steps are you taking to ensure that operations and service are not affected?

Answer. The first step in ensuring that the 30,000 position reduction did not adversely affect operations and service was to resturcture the Postal Service. We have flattened the organization reducing layers of management and allowed our employees to use their initiative.

We have gone through the most extensive resturcturing in postal history. During the transition, almost forty-eight thousand people retired, and over fifty thousand people have new and often greater responsibilities. In addition, we were faced with two of the busiest times for the Postal Service, a national election and Christmas. During this change, we performed well and had a very good first quarter for FY 93. According to the Customer Satisfaction Index, we did better in Quarter I this year than we did last year.

Total volume for the first quarter was over forty-one billion pieces, an increses of 2.1% over the same quarter last year. During the transition, we took the following short term steps to ensure that operations and service were not affected. We added transportation and changed schedules, processed mail on weekends, operated BMCs around the clock, added some weekend and Sunday delivery, and expanded window service hours. But most importantly, we have empowered our employees.

While the results to date have been good, we are taking additional longer term steps to ensure that operations and service are actually improved. We have established three simple goals: (1) Customer Satisfaction, (2) Revenue Generation, and (3) Commitment to Employees.

Having clear goals begining with customer satisfaction, is vital. The primary focus for all employees has shifted from budget and internal operations to satisfying the customer. In the new organization, customer satisfaction drives every service goal and measures our success toward those goals. This drives the way we make changes--any changes. For example, in revising operating plans, we now design these plans based upon our customers expectations as opposed to how much they improve productivity.

We are making it easier for customers to do business with us, which includes more convenient hours at our post offices, accepting manifests, reducing lobby waiting time, establishing business centers to help mailers and simplifying our rules and regulations.

We are committed to our employees and are working toward a grievance-free workplace. We have been,

and we will continue to work in partnership with unions and management associations. We are also determined to provide the environment and tools needed by our people to improve their job satisfaction.

We plan to change the work environment so that management and employees are listening to each other--not simply out of courtesy or obligation, but for the common purpose of satisfying our customers. Bottom line, our goal is to treat employees fairly and see to it that they are happy to work for the Postal Service.

d. What is the overall attitude of the postal employee towards this restructuring?

Answer. As one would expect in a restructuring of this magnitude, employee attitudes are mixed. In general, employees are supportive of the need for the Postal Service to reduce bureaucracy and position ourselves for an increasingly competitive marketplace. We are taking steps to improve our corporate culture, build teamwork, and see that all employees are treated with respect and appreciation. Furthermore, we plan on doing another Employee Opinion Survey this year and next to track their views on our restructuring.

e. Do you have any plans to eliminate any additional positions?

Answer. There are no current plans to reduce positions on a systemwide basis.

f. Can you tell us what savings has the Postal Service realized from the restructuring?

Answer. Estimated savings due to restructuring for FY 1993 are $880 million. This includes $780 million in personnel costs and $100 million in non-personnel costs. These are savings for salaries and benefits and other expenses resulting from the elimination of overhead positions targeted for removal in the restructuring. A total of 30,000 positions have been removed from overhead.

Question. I have a question that is specific to postal employees in Arizona. In early March I met with Arizona representatives of the National Association Of Postal Supervisors. They advised me that approximately 6% Of the Professional and EAS employees in Arizona were still unassigned due to the Postal Service reorganization.

a. Are these employees still unassigned and of those still unassigned, when due you expect them to be reassigned?

Answer. As of the date of this response, we have placed 731 of the affected employees into positions in the new organization. We currently have 13 yet to be placed in Arizona. We expect the restructuring placement process to be completed by after the national posting process, which runs through mid-June.

b. Have they been reassigned in Arizona or were they reassigned outside Arizona?

Answer. Only those employees who applied for vacancies elsewhere on a voluntary basis have been placed outside Arizona.

c. How many total positions were eliminated from the Postal Service in Arizona?

Answer. The net decrease in non-bargaining unit positions in Arizona after the restructuring was approximately 400.

Question. I understand that the Postal Inspection Service was restructured to eliminate the middle management at the regional level and consolidate the field divisions from 38 to 30. I also understand eliminating this layer of management will allow the Postal Inspection Service to redeploy investigative resources to priority areas in the field.

Does the Postal Service expect to reassign any additional inspectors to the Tucson or Phoenix offices in Arizona?

Answer. The restructuring of the Postal Inspection Service is presently on-going. Reassignments from regional offices will be based upon the needs of the Service and personal preferences. As of this point, no decision has been made on increasing resources in Arizona.

COMPETITION

Question. In your statement before the Senate Oversight Subcommittee on Federal Services, Post Office and Civil Services a few weeks ago you stated that one of the problems facing the Postal Service was the rising competition from private companies and evolving technologies that is eroding our mail base and that the Postal Service "must be a competitive business....so that we can be an effective government agency."

Can you give me a status on your competitiveness with the private sector from the standpoint of growth and profitability of Express and Priority Mail?

Answer. From FY 1989 to 1992, Express Mail's contribution has decreased slightly from $170 to approximately $160 million. During that same time, Priority Mail's contribution has increased from $600 million to approximately $980 million. Our competitors do not report profitability by product line. In the overnight market, the most recent information that we have indicates that private sector growth is approximately 10 percent. Express Mail volume through A/P 7, FY 1993, was down 2.5 percent. In the second day market, private sector growth was approximately 20 percent. Priority Mail volume through A/P 6, FY 1993, was up 11.7 percent.

Question. I have received a few complaints from constituents that they use Priority mail and that the delivery of this mail takes much longer than the 1 to 2 days that the Postal Service advertises. One constituent that regularly uses Priority mail to send mail to the U.S. Virgin Islands says at times it has taken 11 days for the Priority mail to be delivered.

How do you explain this delay and what is the Postal Service doing to improve the delivery time performance of Priority mail?

Answer. Our two-day service commitment for Priority Mail is restricted to areas within the Continental United States. The goal for service to offshore points such as the U.S. Virgin Islands, is three days. While we are not able to explain the delay in the isolated cases mentioned, we are in the process of implementing operational changes to improve service.

These changes include:

* Segregation of identified Priority Mail for processing within a separate mailstream;

* Migration of Priority Mail sortation from manual operations to mechanized operations;

* Maximizing Priority Mail volumes to be dispatched on earlier transportation and on direct flights;

* Initiation of a Commercial Air Performance Improvement Program which will monitor the performance of specific airline handling mail and have provisions for appropriate corrective actions;

* Expansion of our dedicated network transportation.

Question. I have also received complaints from my office in Phoenix that First-Class Mail is taking up to 6 days to be delivered to locations across town or to the suburbs of Phoenix.

How do you explain this delay and what can be done to improve this delay in First-Class Mail in Phoenix?

Answer. A review of our External First Class Mail Measurement System (EXFC) data during the last five (5) Postal Quarters (PQ) shows that the level of service for Overnight Mail in Phoenix is consistently 4% to 7% above our national average. Despite this positive record, there was a noticeable decline in overnight service during PQ 1 of FY-93.

In investigating this decline, a discussion with In-Plant Support personnel in Phoenix revealed the following:

* During the year prior to the October 1992 Remote Bar Code Sorter (RBCS) ramp-up in Phoenix, the Incoming Secondary Machine (MPLSM) declined, in anticipation of the lower workhour requirement after RBCS implementation.

* The local RBCS contractor, Lockheed, experienced greater than anticipated problems during RBCS ramp-up. These problems, combined with some unanticipated mail volumes, created situations where available MPLSM staffing was unable to process volumes in a timely manner.

* This issue was and is continuing to be addressed, both locally and at the Headquarters' level.

The Postal Quarter 2-93 statistics showed both an improvement in overnight service versus PQ-1 and exceeded the performance of PQ 2-92. While isolated cases of mail delays can sometimes still occur due to human error, we anticipate that the level of overnight service in Phoenix will continue to show a positive trend.

MAILABILITY OF SHARPS

Question. Recently, an issue has been brought to my attention about the mailability of used sharps (needles, syringes, etc.). It is my understanding that the Postal Service has regulations to control the mailing of these items. However, some felt that existing packaging regulations were inadequate to prevent injuries, including needle sticks or infections occurring from accidental release of used sharps or residual blood. In December 28, 1992 the

DOT Leakproof test was adopted as a mandatory means of ensuring that future sharps packages would protect the public and postal employees against an accidental release of residual blood. Almost immediately after this rule was enacted the Postal Service decided to rely upon an exemption in the DOT standards to effectively repeal the mandatory requirement that sharps packages pass the leakproof test.

It seems to me that the whole concept of leakproof packages and testing is a very good one that protects the public and postal employees.

a. Can you explain why the Postal Service, after developing this test with the consultation of the postal unions and industry, and then turns right around and basically repeals it by using the DOT exemption that states "This test is not required for inner packaging of combination packaging"?

Answer. Postal Service employees met with union, private industry and other government agencies representatives to obtain information for strengthening the requirements for mailing used sharps and other medical devices. Based on input received, a proposed rule change was published in the March 18, 1992 issue of the Federal Register.

The proposed rule change specified among the requirements that the "package prepared for mailing" not the primary container, had to meet the requirements in 49 CFR 178.604 (leakproof test). Under section 124.385 of the Domestic Mail Manual, pertaining to used sharps containers, the packaging for used sharps is essentially tripartite, consisting of a "securely sealed, leak-resistant (not leakproof), and puncture-resistant primary container," a "watertight secondary containment system" and "an outer shipping container constructed of 200-pound grade corrugated fiberboard or similar material of equivalent strength."

The packages approved thus far by the Postal Service under the new requirements are combination packages as defined by 49 CFR 171.8. The primary container of a combination package is not required by 49 CFR 178.604 to be leakproof.

The final rule was published on June 30, 1992, and did not change the requirements of the proposed rule regarding leakproofness.

b. Are these combination packages leakproof?

Answer. Packages prepared for mailing and approved by the Postal Service under the new requirements, which were effective December 28, 1992, were

certified by independent testing companies or organizations to be leakproof.

c. Why would any package used to mail medical waste be exempt from a mandatory leakproof test?

Answer. See the two responses above.

CAPITAL PROGRAM

Question. You reported in your Postal Quarter 1, Fiscal Year 1993 Report to the Board of Governors a total of $93 million capital commitments or contracts were made, compared to a plan of $386 million. The $293 million variance was a result of recertification of facility projects and controls placed on acquisition of computer and other data processing equipment.

a. Which facility projects were recertified and will the controls placed on acquisition of data processing equipment in any way hinder your goal of improving the quality of service?

Answer. All facility projects have been reviewed as part of the Five-Year Capital Budget process. Our Area Offices submitted their respective Capital Budget requests on April 1 for Headquarters review and ultimate presentation to the Board of Governors. The controls placed on acquisition of data processing equipment will not hinder our service goals.

b. What is the status of the Postal Service's capital improvement program, is it going forward, and if so, can you explain how capital plans have been altered?

Answer. As stated above, the Capital Budget review is ongoing. We anticipate priorities will change somewhat as we move from a more centralized to decentralized automation program for letter mail processing. This change will be accomplished by the proposed installation in many of our post offices of a smaller delivery bar code sorter currently in development. This may result in a priority list which focuses less on construction of large mail processing facilities to house bar code automation for letter mail. We will know more about the extent of these changes after our budget review is complete.

c. For the record every year I ask you to supply the 5-year long range facility plan of the Postal Service for Arizona. Can you provide that once again?

Answer. Please see the attached listing.

ARIZONA CAPITAL FACILITY PROJECTS
FY 1993 - 1997

OFFICE	UNIT
BUCKEYE	MPO
CHANDLER	CHAPPAREL STA
CHINO VALLEY	MPO
GLENDALE	GREENWICH STA
KAYENTA	MPO
PEORIA	ANNEX
PHOENIX	AWATUKEE STA
PHOENIX	P&D EXPANSION
PHOENIX	NE STA
QUARTZSITE	MPO
SAN LUIS	MPO
SCOTTSDALE	FOUNT STA
SEDONA	MPO
SIERRA VISTA	STA
TUCSON	AMF
TUCSON	ANNEX
TUCSON	P&D EXPANSION
TUCSON	MOUNTAIN STA
TUCSON	SAGUARD STA
TUCSON	SAN XAVIER STA
WICKENBURG	MPO
WINDOW ROCK	MPO

68-622 O—94——3

SUN CITY WEST POST OFFICE

Question. As you know, in fiscal year 1993, the Committee provided $5 million to the General Services Administration for the construction of a full service postal facility for the community of Sun City West, Arizona. In early March, GSA and the Postal Service entered into a memorandum of understanding on the transfer of the funds to the Postal Service to complete this project.

a. Can you summarize the contents of that Memorandum of Understanding?

Answer. Upon execution of the Memorandum of Understanding, $5 million is provided for site, design and construction of Sun City West, AZ MPO. Funds are to be transferred from GSA to USPS. The Postal Service will provide a delivery schedule to GSA. Upon completion, a proposal to transfer the facility to the Postal Service will be initiated by GSA through the Director, OMB. Until then, GSA will provide space and services exempt from charges prescribed in the Federal Property and Administrative Services Act of 1949. Any unused portion of the project funds will be returned to GSA. Both parties agree to cooperate fully in the execution of the agreement.

b. Can you tell me the status of the project and the milestones which need to be met to complete the project?

Answer. A meeting with the Property Owners and Residents Association of Sun City West was held April 16, 1993; this begins the community contact phase of the project. We will advertise for sites or existing buildings that meet postal requirements beginning May 7, 1993. Site selection will take place by July 21, 1993, and design will begin on site selection. Award of construction will take place by May 17, 1994. Construction will be complete by January 12, 1995. This is a typical schedule for a newly constructed facility.

c. There has been considerable interest expressed by the community residents on either a purchase of an existing building or a lease/purchase arrangement for the facility. Do you foresee any impediments to this type of approach?

Answer. While all options are considered, facilities of this size are generally owned by the Postal Service. We will advertise to purchase a site or existing building to meet postal requirements.

d. Can you give me your commitment that the Postal Service will meet with the community residents in Sun City West prior to making any site selection or other decisions on the proposed facility?

Answer. Yes. As indicated above, a meeting was held April 16, 1993, with the property owners; through the intergovernmental review and community contact procedures, county and other governing bodies in the area are notified of the Postal Service's intent. Opportunity for response is included in those procedures. The community will be notified of the site/building selected, and given opportunity for comment. The final decision regarding the location and design of the facility will be the Postal Service's, based upon operational requirements and input from the community representatives.

e. Mr. General, the Postal Service gave me the estimate of $5 million for a full-service facility for Sun City West. Do you have any more up to date information on what the actual costs of this project will be?

Answer. We plan to build a full-service facility, including our Store of the Future retail concept; final figures are still being compiled, but we expect the cost to be well under $5 million.

f. My preference is that you do the project at the lowest possible cost while still meeting the needs of the community. Can you give me the assurance that this will occur?

Answer. The lowest cost possible, while still meeting the operational requirements, is the goal of the Postal Service.

Question. Some have expressed a concern with the need for a full service facility for Sun City West indicating that the community could be well served for the long-term by a contract facility.

a. Can you tell us the difference between a contract facility and a full-service facility?

Answer. A full-service facility is one operated by postal employees, usually offering post office boxes, and housing retail and carrier operations. A contract station normally is a Postal Service contract with a private firm or individual to provide retail service, and sometimes post office box service in space provided by the contractor (i.e., within an existing drug store, card shop, etc.).

b. Do you believe that with the increasing population trends in Sun City West that a contract facility would serve the long-term needs of the community?

Answer. Long-term needs will best be met by the new full-service facility.

QUESTION SUBMITTED BY SENATOR MIKULSKI

Question. The Conference Committee report on last year's Treasury and Postal Service Appropriations Bill contained language urging the Postal Service to make the main post office building in Hagerstown, Maryland, handicapped accessible. What is the status of this? Will it be completed by the given deadline, September 30, 1993?

Answer. After an initial investigation of the facility, discussions with state and local agencies has resulted in a five phase project schedule consisting of funding, design with State Historical Preservation Office (SHPO) review, contract document development, solicitation/contract award, and construction. Since the facility is designated as historically significant, all work must be approved by the SHPO. The estimated date for completion is September 30, 1993.

QUESTIONS SUBMITTED BY SENATOR BYRD

Question. As I have previously indicated, I am seriously concerned that the United States Postal Service continue to maintain small rural post offices and six-day postal delivery service. In a letter to me, dated November 20, 1992 you indicated that you are committed to improving and strengthening the Postal Service, and in a Press Release, dated October 15, 1992, you stated that you are committed to six-day delivery.

Because these postal service matters are so important to rural states, I may again this year urge that the Subcommittee include an amendment in the bill which would prohibit the use of appropriated funds to close small post offices or discontinue six-day mail delivery service.

Mr. Runyon, as Postmaster General, let me ask you for the record, what are your views on maintaining the extensive delivery network that makes the Postal Service unique, and do they differ from those of your predecessor?

Answer. My views on maintaining the extensive delivery network that makes the Postal Service unique are consistent with those of my predecessors. The Postal Service remains committed to the preservation of its universal postal delivery network and continues to view each individual post office as an intregral component of this system.

Question. Again, let me ask you for the record, what are your views on the Grace Commission regarding the closing of thousands of small post offices?

Answer. I do not support the recommendation of the Grace Commission. On occasion, a post office will be closed for operational concerns when an equivalent or improved level of service can be provided by alternate means to customers served by that office. This is accomplished on a case-by-case basis. The Postal Service has no plans to engage in wholesale closing of small post offices.

Question. Mr. Runyon, I understand that the Postal Service, based on clarifying remarks in the Congressional Record, has instituted certain safeguards and procedures in these instances where the Postal Service believes that a post office must be closed. Would you elaborate for the record on the safeguards the Postal Service uses in these selected cases?

Answer. The Postal Service procedures governing post office closings are designed to safeguard customer rights to regular and effective service by encouraging customer input not only prior to any final determination, but also prior to the public posting of an initial proposal to close an office. Regulations require written consideration of all concerns raised by customers. Opportunities for customer input include questionnaires and a public meeting prior to posting of an initial proposal, written comments on the initial proposal, and the right to appeal to the Postal Rate Commission any final determination. In addition, trained Post Office Discontinuance coordinators at each Customer Services District office monitor each case to ensure that proper procedures are followed, and that customers are aware of, and may meaningfully contribute to, any decisions affecting their post office.

Each post office discontinuance must be justified on its own merits. Factual matters addressed while considering the factors required by statute--the effect of a closing on the community, on employees, on the quality of postal services, and on the bottom line may include: building deficiencies, unsafe

environment affecting personnel or customers, availability of necessary personnel, security of a post office and its revenue, changes in workload, disaster, and landlord/tenant matters.

Question. In the FY 1992 hearings, I indicated that based on my own office records, the number of operating post offices in West Virginia had decreased from 1,000 in 1982 to 905 in operation in 1990, an almost 10 percent cut. I asked how this figure comports with pledges made to me in the past of not engaging in wholesale closing of small post offices.

In response to my question you indicated that 118 West Virginia post offices were closed or consolidated from 1980-1990 due to individual circumstances and not as part of an overall plan to close a large number of post offices within a set time frame, without regard to the service needs of the community. Please update for the record, the post offices which during the past decade, ceased to be in an operational status, the dates when the post offices ceased operations, and a detailed reason for the cessation of operations and the degree to which the Postal Service complied with the safeguards which the Postal Service has indicated it would adhere to in the selected cases where it believes a post office should be closed.

In addition please discuss the result of any appeals initiated as a result of the closing/consolidations. Were any appeals initiated last year? Can you assure me that you have made every effort to notify the community served by those Post Offices being closed or consolidated of their impending closing/consolidation?

Answer. The following provides the names of the post offices and the years in which they were discontinued for the last 10 years.

1984	1985	1986
Cherry Run	Amboy	Dorcus
Cunard	Williams Mt.	Hebron
Herold	Job	Herndon
Clifftop	Mahone	Burnt House
Eastgulf	Nobe	Arbuckle
Hastings	Patterson Creek	Longacre
Cody	New England	Newville
Uler	Toll Gate	Romance
Lehew	Cornsralk	Elgood
Minnora	Jere	Duhring
Pigeon	Gilliam	
Blackberry City		
Frank		

1987	1988	1989
Stony Bottom	Parcoal	Replete
Tesla	Hancock	Crawford
Pickaway	Albright	Liverpool
Droop	Mingo	Garrison
Minnehaha Springs	Asco	Ferrelsburg
Dott	Landville	Earling
Barnabus	Dehue	Lobata
Morrisvale	McDowell	Mead
Vallscreek	Whitby	Grass Creek
Radnor	Algoma	Russellville
Seebert	Marfrance	Duncan
	Corton	Wymer
	Wilber	Indian Mills
	Unger	Corley
	Cherry Grove	
	Annamoriah	
	Guardian	
	Whittaker	
	Carbon	
	Robinette	
	Wilson	
	Tams	
	Dawson	

1990	1991	1992
McConnell	Woodville	Green Sulpher Springs
Gem	Willow Island	Fola
Vadis	Floe	Myrtle
Anthony	Leet	Ramage
Runa	Curtin	Friars Hill
Stickney	Dothan	
Coaldale	Trout	1993
Mill Point	Filbert	
	Bandytown	Eureka

We are unable to provide you with the detailed reasons for the discontinuance of operations at each of these offices without doing extensive research of each individual file. However, let me assure you that we followed the procedures established by law which requires us to consider:

a. The effect of such closing or consolidation on the community served by such post office.

b. The effect of such closing or consolidation on employees of the Postal Service employed at such office.

c. Whether such closing or consolidation is consistent with the policy of the Government, and that the Postal Service shall provide a maximum degree of effective and regular service

to rural areas, communities, and small towns where post offices are not self-sustaining.

d. The economic savings to the Postal Service resulting from the closing or consolidation.

e. And such other factors as the Postal Service determines are necessary.

During calendar year 1992, the Postal Service received a total of 13 appeals where customers of the affected post offices appealed to the Postal Rate Commission the Postal Service's decision to discontinue the post offices.

Of those appeals, seven decisions to close or consolidate offices were affirmed; one decision was remanded to the Postal Service for further consideration; no cases were dismissed on procedural grounds; and five decisions were withdrawn by the Postal Service for further consideration before the issuance of a decision.

I can assure you that our process requires that we notify people that an office is being considered for closing/consolidation. When this occurs, there is a mandatory 60-day notification posted in the facilities affected. If a decision is made to consolidate/close the office, that decision is also posted for 30 days advising customers that they may appeal to the Postal Rate Commission.

Question. Please provide for the record the status of the Charleston General Mail facility including significant milestone events leading to full Implementation of the project. What will be the benefits of this new facility?

Answer. Construction is currently 75 percent complete with 100 percent completion estimated to occur in August 1993. The project will reduce rental expense by providing space for consolidation of administrative functions thereby allowing the cancellation of leases on multiple facilities. Additionally, the project will alleviate the workroom and platform space deficiencies at the existing Charleston GMF, provide additional customer parking, and improve employee working conditions. Finally, the new facility will provide space for the latest automated mail processing equipment.

Question. Please update for the record, as the Postal Service has in previous years, a list of proposed owned and leased facilities to be constructed in West Virginia in the foreseeable future; a short description of each proposed construction project (including need, dimensions,

and the additional number of employees, if appropriate, cost of construction); and a schedule including significant milestone events, leading to the planning, design, construction, and occupancy of each project.

Answer. The five-year budget plan is not yet complete. Therefore, it is premature to provide a project start and completion date for proposed facility projects. Attached is a list of projects planned over the next five years. The list could change somewhat as the budget process and priorities are finalized within the next several weeks.

Question. In addition, please update for the record, as the Postal Service has in previous years, a list of the principal postal facilities in West Virginia, their location, and number of employees at each site. Please also provide the total number of persons employed in West Virginia by the Postal Service.

Answer. The following processing and distribution (P&D) facilities are the principle facilities in West Virginia:

Charleston-P&D 1014 Lee St. 25300 263 employees

Clarksburg-P&D 200 Cava Dr. 26300 75 employees

Huntington-P&D 1000 Virginia Ave. 25700
124 employees

There are currently 3,614 total career employees on the roll in the state.

CHARLESTON DISTRICT
NEW OWNED CONSTRUCTION FY93-97

POST OFFICE	UNIT	ZIP	ESTIMATED SQ FT	NEED	ESTIMATED COST
HURRICANE	MPO	25526	9,800	1	$1,275,000
MARTINSBURG	MPO	25401	40,000	1,2	$5,045,000
SOUTHERN (BECKLEY)	MPC	25800	50,000	1,2	$6,500,000

NEED LEGEND

1 = MORE SPACE NEEDED
2 = IMPROVE WORKING CONDITIONS
3 = CONSOLIDATION
4 = LEASE TERMINATION
5 = PURCHASE OPTION

Note: All ZIP Codes listed are followed by the 9998 four digit add-on.

CHARLESTON DISTRICT
NEW LEASED CONSTRUCTION FY93-97

POST OFFICE	UNIT	ZIP	ESTIMATED SQ FT	NEED
HICO	MPO	25854	1,682	1
LORADO/LUNDALE	MPO	25630	928	1,2,3
DANVILLE	MPO	25053	3,610	1
RANGER	MPO	25557	1,168	1,2
ESKDALE/LEEWOOD/ OHLEY	MPO	25075	1,168	1,2,3
OCEANA	MPO	24870	3,610	1
FRANKLIN	MPO	26807	4,722	1,4
CAPON BRIDGE	MPO	26711	2,140	1
DANIELS	MPO	25832	2,140	1
SHANKS	MPO	26761	1,168	1
OSAGE	MPO	26543	928	1
PAYNESVILLE	MPO	24873	928	1
CRAWLEY	MPO	24931	2,002	1,2,3
MAYSVILLE	MPO	26833	1,408	1
PAX/LONG BRANCH	MPO	25904	929	1,3
SABINE	MPO	25916	600	1,2
SENECA ROCKS	MPO	26884	1,408	1
WADESTOWN	MPO	26589	1,408	1,2
MIAMI/SHARON	MPO	25134	1,168	3
COOL RIDGE	MPO	25825	1,168	1,2
ANSTED	MPO	25812	2,569	1,2
GERRARDSTOWN	MPO	25420	2,140	1
BARTLEY/ENGLISH	MPO	24813	1,168	1,3
BLOOMERY	MPO	26817	1,168	1,3
PINCH	MPO	25156	1,408	1
WILKINSON	MPO	25653	928	1,2
BERWIND/CANEBRAKE	MPO	24815	928	1,2,3
KEYSTONE	MPO	24852	1,682	1,2

CHARLESTON DISTRICT
NEW LEASED CONSTRUCTION FY93-97 (CONT'D)

POST OFFICE	UNIT	ZIP	ESTIMATED SQ FT	NEED
DRY FORK	MPO	26263	1,168	1,2
MASON/W. COLUMBIA/ LAKIN	MPO	25260	3,500	1,3
RIVESVILLE	MPO	26588	2,322	1
MORGANTOWN	ANNEX	26505	34,000	1,2
PICKENS	MPO	26230	1,200	1
BRIDGEPORT	MPO	26330	11,464	1,2
BUD/ALPOCA	MPO	24716	1,168	1,2,3
ARBORVALE	MPO	24915	928	1,2
STOLLINGS	MPO	25646	1,438	1,2
THORPE	MPO	24888	928	1,2
HEMPHILL	MPO	24842	928	1,2
PREMIER	MPO	24878	928	1,2
WORTH	MPO	24897	928	1,2
GLENGARY	MPO	25421	928	1,2
HIGHVIEW	MPO	26808	928	1
VALLEY HEAD	MPO	26294	1,682	1,2
WARRIOR MINES	MPO	24894	928	1,2

QUESTIONS SUBMITTED BY SENATOR BOND

Question. In your statement you talked about the shortfall in the appropriation for the revenue forgone subsidy during the last two fiscal years. Could you briefly outiine what impact the shortfall has had on the Postal Service?

Answer. The real impact of the revenue forgone shortfall will be felt in the future. Not only will future rate payers have to cover the ongoing shortfall, their rate increase will have to pay for the shortfalls which have occurred the past three years. If the program is not funded again this year, the cumulative losses will be $1 billion.

Question. There is no doubt that there will be rate increases in future years. Could you give the subcommittee your assessment as to where we are with regard to an increase?

Answer. Since the Postal Reorganization Act, the Postal Service has increased rates at least once every three years, and sometimes more frequently. Our goal is to break this three-year rate pattern. The last increase was February 3, 1991 and we plan to go at least four years, until 1995, and perhaps much longer without another rate increase. How much longer we can go depends on the circumstances with which we are confronted in the near future.

Question. Will the failure to fund the revenue forgone appropriation have an impact on this projection?

Answer. Yes. The failure to fund revenue forgone is one of the specific circumstances alluded to in response to the previous question which determine the timing of the next general rate increase. No organization can go for long without adjusting to the loss of $400 million annually in its revenues, especially if the revenue shortfall services must still be provided.

Moreover, if the program is not funded again this year, the cumulative losses for revenue forgone will be $1 billion. The $1 billion revenue forgone debt coupled with OMB's proposed $1 billion assessment for the supposedly settled OBRA interest charges will place a $2 billion burden on postal rate payers.

A burden of this magnitude means that the Postal Service will be extremely hard pressed to meet its commitment to go to at least 1995 without a rate increase and eliminates any chances of going beyond 1995. In other words, these proposals will mean that we cannot hope to meet our ultimate rate goal which is to stop the need for large periodic rate increases. Instead, the best we can hope to do is forestall the next rate increase for a year.

Question. In past years there have been abuses in the use of the classes covered by revenue forgone. Have these problems been resolved?

Answer. Much of the perceived abuse centers around the commercial and advocacy content of subsidized third-class mail. We understand these concerns, but under the existing laws governing the use of subsidized rates, there are very few restrictions on the use or content of subsidized mail. To the degree restrictions exist, nonprofit mailers have

testified that we make serious efforts to police these areas. Moreover, in its 1991 study of third-class nonprofit mail, the Postal Rate Commission indicated there was very little illegal abuse. Our revenue forgone proposal would provide the necessary statutory authority to restrict much of the commercial use of the subsidized mail and prohibit advocacy groups from having access to its use.

Question. Over the years there have been a number of proposals made to reform revenue forgone. Some changes have been made. Yet we continue to face problems with regard to funding. Do you have any suggestions as to where we might go from here?

Answer. Yes. Our proposal is summarized briefly below.

(1) Restrict eligibility in three ways:

- Restrict advertising in nonprofit second-class mail and eliminate advertising in third-class nonprofit mail except for incidental announcements of fund raising events such as bake sales and car washes.

- Restrict eligibility to the "core" group of nonprofit organizations, which under IRS statutes, receive tax deductible donations. (This would remove most of the "advocacy" groups which have aroused Congressional concern along with professional organizations, social clubs, and hobby groups. Moreover, it moves toward a consistent federal policy of providing tax deductions and subsidized rate benefits to the same nonprofit organizations.)

- Prohibit for-profit publishers from mailing to libraries at preferred rates.

(2) For the remaining nonprofit mailers, raise rates over a period of three years to the unsubsidized levels, which still provides rates much lower than the corresponding commercial rates.

(3) Continue Congressional funding at a reduced level to pay the cost of free postage on matter for the blind and voting materials and to retire the accumulated deficit of the revenue forgone program over a number of years.

Question. I assume that the mailing community is not too happy with this kind of a proposal. The current situation however, seems to be an impossible one to live with. Could you give us some indication how this proposal would work?

Answer. Our proposal works as follows: First, it eliminates some mailers who now mail at preferred rates (e.g. advocacy groups, professional organizations, and material with a high advertising content). Secondly, it phases the rates of the remaining nonprofit mailers to unsubsidized rates over a three year period. Lastly, it provides Congressional funding for matter for the blind and overseas voting material as well as a small residual payment to retire the accumulated deficit of the revenue forgone program.

Question. Who would be covered? What would the impact be on the appropriation level? What would the impact be on the mailers?

Answer. These questions are answered in more detail in the attached two tables. The first table shows who would lose eligibility. The second table shows how the proposal would be phased in, the impact on the appropriation levels and the impact on the mailers.

REVENUE FORGONE REFORM
Fiscal Year 1994
($'s in Millions)

Restriction	Savings
Eliminate Nonprofit Advertising	
Third–Class Nonprofit (e.g. college catalogs featuring clothes with college insignia)	$40
Second–Class Nonprofit (with over 10% advertising) (e.g. Smithsonian Magazine)	$26
Restrict Eligibility to Specific IRS Nonprofits (e.g. C3, C5, C8, C19)	
(Eliminates Noncharitable "Educational" and Advocacy Groups e.g. abortion, gun control)	$35
(Eliminates Business, Professional, and Social Groups, e.g. AMA, ABA, hobby clubs)	$6
(Eliminate Political Groups)	$4
Subtotal for IRS Restrictions	$46
Eliminate Fourth–Class Library Rate Subsidy to publishers mailing to libraries at preferred rates	$1
Total Savings From Restrictions	$112

REVENUE FORGONE – PHASING – PREFERRED RATES APPROXIMATIONS (CENTS)
Staging the rates in over 3 years until the nonprofit mailers pay the full subsidy
FY 1994 Request for $531 Million 1/ -- Illustrative Examples

Class of Service	Current Rates	Price to Nonprofit Mailers Staging the Rates Over a Three-Year Period Until Unsubsidized: Year 1	Year 2	Year 3 Unsub.
Second-Class Publications				
In County	7.0	7.7 10%	8.4 19%	9.0 29%
Nonprofit	12.8	13.8 8%	14.8 16%	15.8 24%
Classroom	17.3	18.7 8%	20.1 16%	21.5 25%
Science of Agriculture	15.8	15.9 1%	16.1 2%	16.3 3%
Third-Class Nonprofit				
Carrier Route Presort	5.2	6.2 19%	7.2 39%	8.2 58%
Presort to Five Digits	8.1	9.1 12%	10.1 25%	11.1 37%
Required Presort (Flat-sized Pieces)	16.4	17.5 6%	18.5 13%	19.6 20%
Fourth-Class Library Rate	137.0	139.0 1%	141.0 3%	143.0 4%
Dollars of Subsidy Paid By Preferred Mailer		$117	$239	$356
Percentage of Subsidy Paid By Preferred Mailer		33%	67%	100%
Remaining Amount Owed To Postal Service		$239	$117	$0
Percentage of Subsidy Owed To Postal Service		67%	33%	0%
Free Mail For The Blind (Paid By Congress)		$63	$63	$63
Savings From Eligibility Restrictions/Reform		$112	$112	$112
Subtotal		$531	$531	$531
Payment Retiring Revenue Forgone Debt (Paid By Congress)		$29	$29	$29

Question. This subcommittee has had to deal with this issue over the last several years. Is there any interest in making changes at the authorizing committees?

Answer. Our authorizing Committees have been provided with our recommendations for a legislative solution.

a. Does the Postal Rate Commission (PRC) have an interest in this issue?

Answer. It is my understanding that the PRC has their own proposal which was provided to the Committee.

Question. I understand that there is a disagreement between the Postal Service and the Office of Management and Budget with regard to interest that has accumulated since the Budget agreement of 1990. Could you please give the subcommittee a synopsis of this problem?

Answer. In the Omnibus Budget Reconciliation Act of 1990, the Postal Service assumed responsibility for all health benefits and cost-of-living allowances for its retirees after Postal Reorganization, or since July 1, 1971, apportioned for Federal civilian service. In enacting the OBRA of 1990, the Postal Service, Congress, and the Administration agreed to an approach for ending the "hidden subsidies," costs born by the taxpayers that were arguably the responsibility of postal ratepayers. The OBRA Conference Report makes clear that the additional payments required by the legislation covered liabilities dating back to Postal Reorganization.

In FY 1992 & 1993, the Administration again attempted to charge the Postal Service additional sums for hidden subsidies. In his February 28, 1992, letter to Senate Budget Committee Chairman Sasser on these proposals, Senate Governmental Affairs Committee Chairman John Glenn stated that "In 1990, this Committee decided once and for all to eliminate any hidden personnel subsidies to the Postal Service. We said that we were putting this issue to rest. And, that is what we did. The Committee rejected this same proposal last year and opposes it again this year."

QUESTIONS SUBMITTED BY SENATOR D'AMATO

Question. What is the estimated impact that your revenue forgone proposal will have on the ability of your various clients to reach their target audiences?

Answer. The impact is difficult to assess for the following reasons: first, a reduction in number of pieces sent does not imply that the clients will no longer reach the targeted audience. In fact, mailers usually do a better job of targeting their audience when rates go up for a variety of reasons -- they clean their mailing lists, use more sophisticated targeting methods and fine-tune their fund-raising strategies; secondly, these mailers may switch to other forms of fund-raising, whether it be regular rate mailings or alternate methods.

a. Has the Postal Service done an analysis of the cost-to-client with the implementation of this proposal?

Answer. Yes. The Postal Service has done an analysis of the increased costs to the mailers. When the proposal is fully implemented, the preferred rate mailers would experience the rate increases shown in the second column of the attached chart.

The mailers who now mail at preferred rates, but would be restricted under our eligibility reforms, would experience the rates shown in the third column of the attached chart.

PRELIMINARY PREFERRED PRICE LEVEL APPROXIMATIONS (IN CENTS)
FY 1994

Class of Service	Current Rates	Unsubsidized Rates /1	Commercial Rates /2
Second-Class Publications			
In County	7.0	9.0 29%	12.6 39%
Nonprofit	12.8	15.8 24%	15.9 1%
Classroom	17.3	21.5 25%	21.8 1%
Science of Agriculture	15.8	16.3 3%	16.5 1%
Third-Class Nonprofit			
Carrier Route Presort	5.2	8.2 58%	10.9 33%
Presort to Five Digits	8.1	11.1 37%	14.6 32%
Required Presort (Flat-sized Pieces)	16.4	19.6 20%	23.3 19%
Fourth-Class Library Rate	137.0	143.0 4%	234.0 64%

/1 Percentage increases for the unsubsidized rates are computed from the current rates.
/2 Percentage increases for the commercial rates are computed from the unsubsidized rates.

b. Should the proposal be implemented, does the Postal Service expect client participation of those under the current subsidy to rise, fall, or stay the same?

Answer. If our proposal is implemented, the Postal Service expects the clients' participation (i.e. volume of pieces mailed) to decline. By class of service, the decline in volume is listed below.

Class of Service	Volume Decline (Millions)
Second-Class	300
Third-Class	1,060
Fourth-Class	8
Total	1,368

c. If the Postal Service expects participation to rise or fall, will this affect future requests for any increase or decrease for the revenue forgone subsidy?

Answer. Yes, future requests for funding will be affected. They will decrease dramatically. In fact, if our proposal is implemented, Congress will only need to provide funding for matter for the blind and overseas ballots and a small amount to retire the accumulated deficit of the revenue forgone program.

Question. Should your proposal for resolving revenue forgone be approved, can you give assurances to this Subcommittee that 1st Class postal rates will not increase for the forseeable future (5-10 years)? If not, under what circumstances would the Postal Service consider price increases for 1st Class mail delivery?

Answer. No. For purposes of perspective, it is worth noting that, since it was established in 1970, the Postal Service had never gone more than three years without a rate increase. Our efforts to go four or more years, until 1995 at the earliest, without a rate increase represents a radical departure from established Postal Service practice. If our proposal is not approved and efforts for additional assessments against the Postal Service are successful, 1995 is an extremely optimistic goal and the next general rate increase will likely be much sooner and higher than it would otherwise be.

Question. In your written testimony you state that cost savings would not be adequately achieved by closing small and reportedly "unnecessary" post offices and that you wouldn't want to do that because "it would impact thousands of small rural communities." As you no doubt know, there are some 1,200 post offices in my state, many of which happen to be in small rural communities. One such post office is the New Suffolk post office (near Peconic Bay, on Long Island). This post office was severely damaged in a fire two weeks ago and there is local concern that their post office will not be rebuilt. To me, this is equivalent to merely closing a rural

post office. Keeping in mind the importance to small communities of maintaining distinct post offices, can this Subcommittee get any kind of commitment from you that the U.S. Postal Service will not negatively impact the net total of post offices nationwide so that communities like New Suffolk do not lose their postal service?

Answer. The Postal Service will continue to provide retail and delivery services to our rural communities. However, this may not always mean the retention of an independent post office. Many times a post office is located in a postmaster's residence, and the postmaster vacates the job and there is no suitable location in the community for a post office. Other times, the building housing the post office has safety and health deficiencies that the lessor will not repair or are not warranted because of the age or condition of the facility. The demographics of communities also change, and there are communities with very small populations that can be served by alternate mail service. In many cases, the alternate method of service provides customers with greater access to their mail and/or extended window service hours. Let me assure you, we will continue to maintain mail service to rural communities we now serve.

As for the New Suffolk Post Office, the office will be reopened in new leased space very shortly. The Postal Service has been working with the community to get their post office operations back to normal.

Question. As you stated in your testimony, the Postal Service cut tens of thousands of positions last year in order to cut costs and stabilize finances. Does the Postal Service have any plans to make additional cuts in the postal work force in fiscal year 1994 (and beyond)? Will Congress be consulted prior to any final decisions should any significant cuts be contemplated?

Answer. We have no current plans to make additional systemwide cuts in the postal workforce.

DEPARTMENT OF THE TREASURY

BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

STATEMENT OF STEPHEN E. HIGGINS, DIRECTOR

ACCOMPANIED BY:

EDWARD S. KNIGHT, EXECUTIVE SECRETARY OF THE DEPARTMENT OF TREASURY AND SENIOR ADVISER TO THE SECRETARY

JOHN P. SIMPSON, DEPUTY ASSISTANT SECRETARY, DEPARTMENT OF TREASURY

DANIEL BLACK, ASSOCIATE DIRECTOR FOR COMPLIANCE OPERATIONS

DANIEL M. HARTNETT, ASSOCIATE DIRECTOR FOR LAW ENFORCEMENT

ARTHUR J. LIBERTUCCI, JR., CHIEF FINANCIAL OFFICER

INTRODUCTION OF WITNESSES

Senator DECONCINI. Our next panel of witnesses will consist of representatives from the Bureau of Alcohol, Tobacco and Firearms.

Representing the ATF will be Mr. Steve Higgins, Director; Mr. Daniel Hartnett, Associate Director; Mr. John Simpson, Deputy Assistant Secretary; and Edward Knight, Executive Secretary for the Department of the Treasury.

Director Higgins, we are pleased that you could be here this morning, particularly under the current circumstances.

Before we get started, I want to take this opportunity to express my extreme sorrow and sadness to the families of those brave law enforcement officials that worked for you, and those that are working for you today during the tragic events that have taken place in Waco, TX.

It is devastating any time a law enforcement official loses his life, particularly in the line of duty, and I'm sure the emotional difficulties and strains on the families are immense, as they are on you, Director, and the people who worked for you.

For the record, I want you and your employees to know that this Senator fully supports your efforts to bring about a conclusion to this tragic situation and the manner in which you have conducted this operation so far.

There will be hearings and allegations. We'll talk about some of those today. There will be recriminations and misinformation and anonymous people who want to cause problems. But I think what has to speak is the clear record that will be brought out once it is brought to a conclusion.

I have worked with you, Mr. Higgins, and your organization and Treasury on this subcommittee for more than a decade, and I have always found your agency to be one of the most professional and respected in law enforcement, both on the Federal level and local level. You have a real legacy with local law enforcement groups for

your cooperation, sharing intelligence and manpower, and whatever is necessary.

It is easy to sit on the sidelines and criticize, particularly when you can remain anonymous—and I know you can't remain anonymous. I was watching you on one of the national shows this week, and I wish you could have put a mask over your face and said, "Well, I'd like to tell you something anonymously that maybe you'd like to know about this case." You can't do that. You are the head of the professional law enforcement agency and are restricted by the investigations that are ongoing and on what you can say and what you can't, and we will respect that today as we delve into some questions regarding the incident in Waco.

Turning to your budget, Mr. Higgins, your fiscal year 1994 budget includes $359.2 million, and 4,201 full-time equivalent positions for the ATF for fiscal year 1994. This amount reflects to a reduction of $7.1 million and 60 FTE's from the fiscal year 1993 funded level.

Director Higgins, I have a lot of questions on Waco, and I think as soon as my ranking member finishes and you finish with your opening statement I think we should just get to that subject matter because there is, I think, an opportunity for you to put a number of things on the record as you see them, and to answer some questions, quite frankly, that I have because of our jurisdiction of funding your agency.

Senator Bond, I'd be glad to yield to you for any opening statement regarding these witnesses and this agency.

HARSH REALITIES OF LAW ENFORCEMENT

Senator BOND. Thank you very much, Mr. Chairman. I join you in welcoming Director Higgins and his colleagues.

As you have noted, the last month has not been an easy one for the ATF. Events in the last 6 weeks have shown us the hard work and the harsh realities and the danger to life and limb and liberty of law enforcement officials that they face each day.

The bombing of the World Trade Center and the standoff in Waco are both examples of those realities.

Certainly, we say to you on a bipartisan basis from Congress the enormity of these tragedies has impacted the entire Nation. We cannot accept with any kind of anything other than the greatest sadness that there is loss of life. Yet, every day men and women of our law enforcement organizations are willing to face life-threatening situations. We express our continued appreciation to them for doing so.

We express and ask you to carry to the families and friends of the victims our deepest sympathies, our sorrows, and our prayers.

Certainly, we all wish this tragedy had never occurred. I, like you, wish the standoff had never occurred. But I share with the chairman a very real concern about the press account over the past few weeks. Speculation and innuendo from unnamed sources, as has been indicated, does not help. It does not bring back the lives. It does not help solve the problem facing us.

I think it is a grave disservice to those who lost their lives and I am very much concerned it may be aggravating the current situation.

I can assure you that when this situation is resolved we will ask you all of the relevant questions, hard questions. If we disagree, we will bring out those disagreements. But while this situation is going on, we want you to know that we will continue to be supportive of the men and women whose lives are on the line and whose well-being is at risk, along with all of the other people in the area.

We will be asking some questions about the Waco incident in order to enable you to put on the record anything that you feel is helpful now. I would urge you, if there are questions whose answers should be deferred until afterward, there will be plenty of time to delve into such questions, and we don't, by our questions, want to put you in a position of asking anything that might make your activities more difficult in the Waco situation.

Mr. Chairman, I thank you.

Senator DECONCINI. Thank you, Senator Bond.

Mr. Higgins, you may proceed. Your full statement will be inserted in the record, and you may summarize it for us.

STATEMENT OF STEPHEN E. HIGGINS

Mr. HIGGINS. Thank you, Mr. Chairman and Senator Bond. It is a pleasure to appear before you this year on the matter of our 1994 appropriation, although I do wish the circumstances were different.

I have submitted a full statement and a summary for the record, and with your permission I'll just make a few brief comments.

It was extremely important to the men and women in ATF that the distinguished chairman of this committee, supported by the ranking member and others, spoke for them in the aftermath of Waco.

A firestorm of criticism broke over them at a time they were in mourning and still on the line. The tremendous bravery and discipline they displayed has yet to be heard. While all of us have fair questions, including this committee, I suspect that some self-styled experts may realize how little they really understood about what happened that day.

The Bureau's estimated 1994 appropriation is $364,245,000, and included in the appropriation's language is a proposal to authorize the establishment of a $5 million user fee program. That proposal will enable the Bureau to establish a user fee program for processing applications for certificates of alcohol label approvals, and for conducting laboratory tests and analyses. Enactment of that proposal would result in an estimated final appropriation of $359,245,000.

This is a time of sadness, but of challenge and pride, for all of us. While we mourn our four agents killed and 16 agents wounded in the line of duty on February 28, we grieve as armed, violent lawbreakers in Texas and bombers in New York still challenge our right to live in a society free of fear and intimidation.

Since 1985, there have been a number of events, such as that in Waco, involving armed zealots committed to resisting the rule of law in Arkansas, Utah, and Idaho. The cost, tragically, is the same—dead police officers, dead suspects, dead followers, dead family members.

Since February 28, a task force of several hundred law enforcement officers have surrounded the ranch compound occupied by the

Branch Davidians. At our request, the FBI made its hostage rescue specialists available to manage the protracted negotiations, and they have done a tremendous job.

I think this is but the latest of a series of mutually supportive actions that reflect the true relationship between these two proud, capable, and dedicated law enforcement organizations.

A number of children and adults have been released from the compound, but 95 or more people may still be inside. As we meet here today, that standoff continues. The leader there, Mr. Koresh, is a volatile person who speaks often of violence and has a strong hold over his followers.

You have my promise, though, that we will do everything possible to resolve that situation peacefully.

Cooperation and challenge extend beyond the situation in Waco. Our agents have joined the FBI and the New York City Police Department in investigating the devastating and unpardonable bombing at the World Trade Center on February 26. As you know, two of our national response teams spearheaded the search of the difficult crime scene.

We are pleased that the national response team members discovered key evidence that led to the first arrest in the case and the recovery of bomb-making materials.

Let me add that when this case is solved—and that will happen—it will be because of the work of dedicated professionals in all of the participating law enforcement agencies.

America and Congress ask, "Why did Waco and New York happen? What is the meaning of those events? What steps can we take to keep them from happening again?"

I think we must begin with a full and frank debate about our firearms and explosives laws. Stricter enforcement of existing laws will not, in my judgment, be sufficient. The guns at Waco and the bomb in New York are readily available to the common criminal, and something has got to be done about it.

Almost unnoticed in the attention to these major incidents, our agents moved in on an illegal operation in North Carolina which involved a licensed firearms dealer who had put 15,000 guns a year illegally on the street.

We sell firearms and explosives largely on the honor system. These deadly weapons flow easily into the hands of violent criminals, mentally disturbed persons, and terrorists. That's simply a fact. And unless we make changes, I fear more events will occur like the one at Waco, more bombings like the one in New York, more massacres like those in Stockton, CA, and in Killeen, TX.

We must deal with criminals, or they will deal with us. Too many firearms and explosives violators are inclined to wound or kill. Either we control them and curtail their ability to harm innocent citizens, or we pay too dearly.

I think we can find commonsense answers to problems associated with firearms and explosives, and I believe most of those answers require willpower rather than much larger amounts of dollars, and they can be achieved without any threat to constitutional rights.

It is proper that you should ask probing questions about Waco and New York, and I know the American people, as do all of us, want candid answers. I'll be as responsive as I can, given the fact

that they are continuing situations. I expect fully to give those answers—some now, and more later.

With that, we'll be pleased to answer any questions you may have.

PREPARED STATEMENT

Senator DECONCINI. Thank you, Director Higgins. We have your complete statement and it will be made part of the record.

[The statement follows:]

STATEMENT OF STEPHEN E. HIGGINS

Mr. Chairman and Members of the Subcommittee, it is a privilege to appear before you to discuss our 1992 accomplishments, 1993 operations and 1994 budget request.

Accompanying me today are Mr. Daniel Black, Deputy Director and Associate Director, Office of Compliance Operations; Mr. Daniel Hartnett, Deputy Director and Associate Director, Office of Law Enforcement; and Mr. Arthur Libertucci, Assistant Director, Office of Administration and Chief Financial Officer.

Resource requirements for the Bureau of Alcohol, Tobacco and Firearms in fiscal year 1994 are estimated to be 4,201 FTE positions and $364,245,000. This includes a program increase of 5 FTE positions and $1,685,000 to support the Bureau Systems Modernization Program, an increase of $8,201,000 to maintain the current level of operations, offset by reductions of $13,739,000 and 65 full-time equivalent positions associated with nonrecurring costs and savings for fiscal year 1994.

The user fee proposal included in the President's Budget seeks authorization to establish a user fee program for processing applications for certificates of alcohol label approvals (or exemptions therefrom) and conducting laboratory tests and analyses. Anticipated user fee collections of $5,000,000 would offset the cost of processing applications and conducting laboratory tests so as to result in a final fiscal year 1994 appropriation of $359,245,000.

Our fiscal year 1994 request is 60 FTE positions and $3,853,000 below our fiscal year 1993 budget authority level. In addition, the user fee offset of up to $5,000,000 mentioned above would lower the final appropriation $8,853,000 below fiscal year 1993.

ATF conducts operations through four programs: alcohol, tobacco, firearms and explosives which are applicable to both Compliance Operations and Law Enforcement Activities. Our discussion today focuses on achievements in these programs along with other operations including equal opportunity, management and organizational improvements.

We understand that the Subcommittee intends to focus on firearms issues. Accordingly, we will discuss our programs starting with firearms.

COMPLIANCE OPERATIONS (CO) ACTIVITY

Our Compliance Operations Activity regulates several industries which market products that are sensitive in nature and subject to continued public interest. Our policy has been to regulate only to the extent necessary to achieve the intent of law. A balance is sought between effective administration of statutory requirements, the protection of the public, and the legitimate needs of industries under ATF's jurisdiction.

The Bureau is extremely selective in establishing goals to assure effective resources use. Compliance Operations (CO) field offices continually assess and report on the levels of compliance in their geographical jurisdictions. Field inspections are concentrated in those areas which present the greatest risk to the revenue or which pose the greatest threat to public safety. In the firearms program, CO field supervisors and their Law Enforcement counterparts work side by side to develop and evaluate methods to identify those dealers involved in the illegal transfer of firearms, or those dealers whose improper or fraudulent recordkeeping impede the ability of ATF to successfully trace firearms recovered from crime scenes.

CO FIREARMS PROGRAM

This program is based upon the Gun Control Act of 1968 (as amended), Public Law 99–308 of 1986, and other statutes. Licenses are required to manufacture, import, and sell firearms. The intent of the statutes, and our qualification efforts, is

to prevent statutorily prohibited persons (e.g., convicted felons) from obtaining licenses.

Targeting criminals in possession of firearms is a very important aspect of our program. The Compliance Operations Activity analyzes trace information on firearms recovered at crime scenes and develops profiles which target various criminal elements (i.e., gang members, "straw man" purchasers, illegal traffickers, possible terrorists, and international traffickers, etc.). Inspectors uncover purchasing patterns of those weapons commonly used as crime guns. Field supervisors work closely with the Law Enforcement Activity counterparts to evaluate areas where inspection field efforts will produce the most valuable information and investigative leads. Inspectors accompany special agents on the execution of search warrants to assist in the seizure and examination of firearms records, and to investigate licensees who criminally misuse their licenses (e.g., by diverting firearms to illegal channels).

Inspectors support Achilles task forces and other special enforcement efforts, such as the High Intensity Drug Trafficking Area (HIDTA) program. During fiscal year 1992, 272 Achilles firearms inspections were conducted and resulted in over 570 referrals to Law Enforcement. There were 12,000 criminal background checks conducted and 14 percent of these resulted in "hits" (firearms purchasers that had criminal records). Compliance Operations conducted 2,604 HIDTA inspections in southern California, Arizona, and other specified areas in our Southwest Region. The results included 49 referrals to Law Enforcement, 335 violations cited and 234 firearms licenses surrendered.

Inspectors verify records and inventories to maintain trace capability and examine transaction records to identify likely violators (e.g., convicted felons, "straw man" purchasers, gang members, illegal traffickers, etc.).

During fiscal year 1992, 20,023 inspections were conducted. As a result, licensees were cited for 8,938 serious violations and 4,753 referrals were made to law enforcement agencies. Some examples of these field activities include the following.

Dallas, Texas.—During a compliance inspection an Inspector documented that an unlicensed individual had purchased 30 small caliber automatic pistols, and the following day would be taking delivery on an additional 90 handguns. The Inspector was informed that the individual had asked about purchasing an additional 5,000 handguns. This information was referred to special agents who put the individual under surveillance and obtained a search warrant for the suspect's home and car. The suspect admitted the firearms were being smuggled to Mexico and the case is now pending before action by the Assistant U.S. attorney's office.

Chicago, Illinois.—In the course of conducting an application inspection for a firearms manufacturing license, an Inspector discovered that the female applicant was very unfamiliar with manufacturing firearms and her husband would actually be managing the business. Further interviews and research by the Inspector revealed that the husband had a felony conviction for possessing two unregistered machine guns and selling an unregistered silencer to an undercover ATF agent. After his conviction, the husband served time in Federal prison. Because of the disclosure of this information, the wife withdrew her application.

Denver, Colorado.—Referrals from a compliance inspection at a Denver firearms dealer have resulted in one arrest and three criminal investigations. The individuals, illegal aliens active in Denver area drug trafficking, are also under investigation by Immigration and Naturalization Service.

San Francisco, California.—An Inspector responding to an anonymous tip from a concerned citizen discovered some grave discrepancies in the records of a licensed firearms dealer. Because of the dealer's potential for violence, the inspector was accompanied by special agents. The examination of the records discovered that the dealer was using the names of deceased individuals to complete the required records. Revocation proceedings will be initiated if the dealer is not prosecuted criminally.

Southwest Border.—In the Southwest, Operation El Tambien focused on detecting illegal exports of firearms through sales made by dealers. Inspectors and special agents visited about 215 licensees and examined their records. Fifty-three individuals were identified as "straw purchasing" firearms for transfer to Mexico. Over 450 firearms had been smuggled into Mexico during an eight-month period.

FIREARMS AND EXPLOSIVES LICENSING CENTER

The Firearms and Explosives Licensing Center is responsible for processing firearms license applications and maintaining the Bureau's licensee files. At the end of fiscal year 1992, there were 284,117 firearms licensees. Compliance Operations offices processed 95,958 applications, of which 37,085 were first-time applicants and 58,873 were renewals.

NATIONAL FIREARMS ACT (NFA)

ATF is also responsible for enforcing the registration and revenue provisions of NFA, a statute regulating machine guns and certain other weapons. The register is maintained to make it difficult for criminals to obtain access to these types of weapons. The NFA Branch handled over 170,000 applications and notices relating to these regulated firearms and devices during fiscal year 1992. To provide support and assistance to ATF Compliance Operations personnel and special agents, NFA branch personnel conducted 1,255 certifications for criminal cases and 9,054 searches of the NFA register. The NFA registration files were automated to handle information on hundreds of thousands of NFA firearms and to respond promptly to requests for information from law enforcement agencies.

As in other programs, the Bureau uses seminars and similar initiatives as a means of improving understanding of and compliance with Federal laws. ATF expanded the outreach program beyond the licensee community by participating at gun and trade shows. The Bureau periodically publishes a Federal Firearms Licensee (FFL) Newsletter and in fiscal year 1992, provided 113 firearms seminars to firearms licensees. State officials are actively involved with ATF in conducting seminars. These seminars seek to inform licensees on a broad range of topics including recordkeeping, prohibited sales, and the licensee's role in tracing crime weapons.

LAW ENFORCEMENT ACTIVITY

Our Law Enforcement Activity enforces the Federal firearms and explosives laws, as well as violations involving alcohol and tobacco regulations. ATF maintains an excellent working relationship with State and local law enforcement officials. In fiscal year 1993, Law Enforcement is focusing its resources to investigate narcotics and firearms traffickers; violent offenders, including violent gangs and career criminals; arson-for-profit; bombings; and other crimes of violence.

LE FIREARMS PROGRAM

Investigative priorities within the Firearms Program are on armed violent offenders and career criminals, narcotics traffickers, traditional and nontraditional organized crime members, violent gangs, domestic and international arms traffickers, and international and domestic narcoterrorists.

In fiscal year 1992, ATF initiated 12,314 firearms investigations and recommended 11,406 defendants for prosecution.

ACHILLES PROGRAM

By law, ATF is the Federal agency having primary jurisdiction over Federal firearms violations. During fiscal year 1991, the Department of Justice (DOJ) initiated Project Triggerlock, which targets, for Federal prosecution and incarceration, armed violent offenders who violate Federal firearms laws that call for mandatory and enhanced penalties. This program parallels ATF's Achilles effort, which was developed at the beginning of fiscal year 1987. ATF is a participant in Project Triggerlock in each of the 94 Federal judicial districts that are in direct support of ATF's mission within the Achilles Program. Achilles has become the investigative phase and Triggerlock the prosecutive phase of the DOJ initiative.

ACHILLES TASK FORCES

ATF has experienced tremendous success with the enforcement of the firearms laws providing for mandatory minimum sentencing through our Achilles Program. The Achilles Program increases State and local awareness of the advantages of Federal prosecution under 18 U.S.C. 924 (c) and (e), which call for mandatory and enhanced penalties.

As of fiscal year 1993, ATF has established 21 congressionally funded Achilles task forces, the majority of which are comprised of ATF agents and State and local law enforcement officers. The task forces work only a select portion of the cities and concentrate enforcement efforts on select violent criminals.

ACHILLES VIOLENT OFFENDER PROGRAM

In March 1992, ATF implemented its Violent Offender Program. Data on the most violent active career criminals in the United states with a propensity to possess and use firearms in their criminal activities are entered into the National Crime Information Center's ATF Violent Felon File.

Since the beginning of the program, there have been more than 100 "hits," in which ATF violent offenders have been the subject of law enforcement contact. Approximately 20 criminal cases have been initiated at the Federal, State, or local level.

ACHILLES GANG EFFORTS

ATF uses the task force approach to attack organized violent gangs. During fiscal year 1992, ATF participated in 234 violent gang task forces with other Federal, State, and local law enforcement agencies. Although most of these task forces target an individual gang or group such as Jamaican posses, Crips and Bloods, or outlaw motorcycle gangs, 13 percent of the task forces are targeting more than one violent group.

ATF maintains six gang data bases, used to assist in identifying gang members and their criminal networks. Information is derived from a host of State and local law enforcement agencies, as well as ATF reports of investigation. They contain information on gang members and associates, businesses, areas of activity, weapons seized, and vehicles used. During 1992, ATF responded to more than 1,800 data base inquiries from international, Federal, State, and local agencies, with a hit rate of 20 percent.

In fiscal year 1992, ATF prepared publications for the law enforcement community on Crips and Bloods gangs, Jamaican organized crime, Asian organized crime, street gangs, and organized crime overall.

PROJECT UPTOWN

Project Uptown is a joint effort between ATF, the New York City Housing Authority Police Department, and the U.S. Attorney for the Southern District of New York to address the use of firearms by violent criminals involved in narcotics-related offenses in area housing projects.

A recent report by the Statistics and Records Section of the New York City Housing Authority released crime comparison statistics between 1989 and 1992 for the area in which the Project Uptown task force operates.

The report shows a decrease in total crime of almost 16 percent with an increase in arrests of 14 percent. Felonies decreased 13 percent, and felony arrests increased 34 percent. It was also reported that robberies decreased 46.5 percent, and burglaries were down by 22 percent. Drug arrests were up 49 percent during this time period. Statistical accomplishments to date are as follows: 195 search warrants executed; 428 search warrant-related arrests; 631 street arrests; 82 firearms seized; approximately $140,000 in U.S. currency recovered; and approximately 952 grams of crack cocaine, 9.7 kilograms of powder cocaine, and various amounts of heroin, PCP, and LSD recovered.

The following is an example of a Project Uptown accomplishment:

Southern District of New York.—An intensive investigation that began in September 1991 turned into what the U.S. attorney's office has referred to as "one of the largest crack organizations in the history of the Southern District of New York." It resulted in the arrest and indictment of 25 organization members, culminating in December 1992. The defendants who have already pled guilty to their respective charges have received sentences averaging 17 years in prison. One of the three remaining defendants faces a mandatory life sentence without parole for the fatal shooting of an individual in a housing project over a drug dispute. The other two defendants face sentences of 20 years to life.

PROJECT OUTREACH/G.R.E.A.T. PROGRAM

ATF participates with other Treasury agencies in Project Outreach by providing informative presentations to schools, churches, parent/teacher associations, community groups, civic organizations, and private businesses. These presentations are intended to discourage street gangs, drug trafficking, and substance abuse within individual communities. During fiscal year 1992, Bureau personnel gave 1,246 lectures to 65,722 people.

Over half of ATF's field divisions have become involved with Big Brothers/Big Sisters of America in order to reach a larger audience.

Also in fiscal year 1992, ATF received congressional funding to initiate a pilot gang prevention program in Phoenix, Arizona, under Project outreach. Law enforcement personnel conducted gang prevention courses in seven Phoenix area junior high schools for approximately 12,000 students. Throughout the year, officers routinely contacted the parents of students who associated with gang members to advise them of counseling and other steps they could take to remedy the problem. The

Bureau also promoted a public service campaign intended to discourage gang activity. During the summer, an education and recreation program was held, involving more than 300 students at high risk of becoming gang members.

In fiscal year 1993, ATF received 12 FTE's and $2.4 million to continue the Phoenix program and to conduct similar programs in New Mexico and Hawaii, under the Gang Resistance Education and Training (G.R.E.A.T.) Program.

OTHER ACHILLES EFFORTS

In addition to the 21 congressionally funded task forces, each field division office has personnel who concentrate on enforcing violations of 18 U.S.C. 924(c) and (e). Since the inception of the Achilles Program through fiscal year 1992, the Bureau has perfected 6,375 criminal cases with 10,236 defendants under 924(c). Under 924(e), the Bureau has perfected 3,341 cases with 3,980 defendants. As the result of ATF investigations, 1,050 suspects have been sentenced under 18 U.S.C. 924(e) to 18,461 years in prison. This is an average sentence of 18 years in prison, including 15 life sentences. Additionally, 2,679 defendants have been sentenced to 16,316 years in prison under 18 U.S.C. 924(c). This is an average of 6 years incarceration with one life sentence.

The following are examples of our accomplishments in the Achilles Program area:

Gainesville, Florida.—On May 21, 1992, an individual was sentenced to life imprisonment under the enhanced sentencing provision of 18 U.S.C. 924(e) after conducting an armed robbery of a bank. Because of his use of a firearm during a crime of violence, he was also sentenced to serve 5 years in prison for violation of 18 U.S.C. 924(c). His criminal history includes six convictions for armed robbery and one conviction for robbery and an indictment in November 1991 on three counts of burglary, three counts of armed burglary, three counts of sexual battery, and three counts of murder. This individual is the primary suspect in the mutilation murders of five Gainesville, Florida, college students in August 1990.

Dallas, Texas.—On July 17, 1992, a defendant was sentenced to serve a total of 65 years in prison for violation of four counts of 18 U.S.C. 924(c). A coconspirator was sentenced to 25 years in prison for two violations of the same statute. The lengthy prison terms were the result of the defendant's participation in five armed robberies in the Fort Worth area. During two of the robberies, the defendants shot two store employees, seriously wounding them both.

Armed Criminal Enforcement Study (ACES) West.—From June 1 through October 3, 1992, ATF initiated its third ACES project, aimed at aggressively targeting members of armed violent gangs that use firearms in furtherance of narcotics trafficking crimes of violence in violation of 18 U.S.C. 924(c). ATF also succeeded in proactively and reactively identifying and apprehending subjects that qualified for mandatory sentence enhancement under 18 U.S.C. 924(e). ATF additionally identified and apprehended those subjects who burglarized or received firearms from FFL's and other firearms suppliers during the Los Angeles riots. ACES West concentrated its efforts in the Los Angeles and Inglewood areas. Two previous ACES task forces had been assigned to Washington, DC.

INTERNATIONAL TRAFFIC IN ARMS (ITAR) PROGRAM

The ITAR Program is a continuing endeavor by ATF to combat the illegal movement of firearms, explosives, and ammunition in international traffic. The ITAR Program uses ATF's regulatory and enforcement authorities to identify the sources of firearms and explosives that are illegally trafficked from the United states to foreign countries, to investigate the sources and traffickers, and to stop the unlawful purchase and trafficking of the firearms and explosives.

The investigative process begins with the timely receipt of accurate descriptions of foreign seizures of U.S.-sourced firearms. ATF uses its unique ability to trace firearms to identify the dealers who sold the firearms and the individuals who purchased the firearms. ATF special agents then investigate how and where the firearms were diverted into the unlawful international arms market.

During fiscal year 1992, ATF submitted 137 cases for prosecution, charging 293 suspects with Federal firearms and/or explosives violations.

In fiscal year 1992, ATF opened an ITAR office in Mexico City and conducted assessment details in Canada, Great Britain, Hong Kong, the Philippines, and Singapore. The Bureau received requests for assistance from 33 foreign countries that reported a total of 6,862 suspected U.S.-sourced firearms recovered in their countries.

The following are case examples of our accomplishments in the ITAR Program:

Laredo, Texas.—In August 1992, a Cuban refugee, who is also a six-time convicted felon, was arrested by ATF in Laredo. He was responsible for the "straw purchase"

of more than 250 firearms that were unlawfully trafficked into the Republic of Mexico.

Barranquilla, Colombia.—In August 1992, two Colombian Nationals were arrested in Barranquilla by the Colombian National Police after the ATF Colombia Country Office identified them as international firearms traffickers. At the time of the warrant, 14 kilos of cocaine were seized. The two arrested subjects were responsible for trafficking 284 firearms from the United States to Colombia. ATF is assisting Colombian law enforcement in the prosecution of the subjects.

OPERATION ALLIANCE

Operation Alliance is an ongoing, multiagency effort to interdict drugs and other contraband smuggled across the Southwest border. Its operations take place roughly within 158 miles of the U.S./Mexican border and in the coastal waters adjacent to the Texas and California borders with Mexico. The focus of Operation Alliance is to identify, target, and prosecute individuals and groups involved in international narcotics trafficking across the Southwest border. During fiscal year 1992, ATF initiated 243 Operation Alliance investigations. As a result of these investigations, 186 criminal cases charging 367 defendants with various firearms violations have been recommended to the appropriate U.S. attorneys for prosecution, and 822 firearms have been seized.

The following cases exemplify some of the significant results achieved throughout fiscal year 1992:

Houston, Texas.—On July 26, 1992, ATF culminated a 9-month investigation with the execution of two Federal search warrants and a consent search at the residence and business premises of Luis Alberto Sanchez, a Houston area FFL. Sanchez and his employees were reported to be a major source of firearms to foreign nationals in Latin America and to other prohibited persons, including drug traffickers.

Corpus Christi, Texas.—On May 8, 1992, ATF arrested Lucio Moron, Jesus Velasquez-Valverde, and Jose Velazquez-Acros as they attempted to smuggle 10 firearms into Mexico at Laredo, Texas. The firearms had been purchased from an FFL through the use of a "straw purchaser." This individual had previously purchased at least 58 firearms during the past year. The investigation was initiated as part of Operation Sabedor, a Southwest border project.

DRUG-RELATED EFFORTS AND GANG ACTIVITIES

Based on the Bureau's evaluation of direct resources devoted to the anti-drug effort, ATF's drug control program uses approximately 40 percent of our budget ($143 million). We have several drug-related initiatives, which are discussed below.

JAMAICAN POSSES

Posse members have committed more than 4,057 narcotics-related homicides since 1985, and their proclivity toward firearms have made them vulnerable to the firearms statutes enforced by ATF.

In fiscal year 1992, ATF cosponsored the Fifth Annual International Caribbean Organized Crime Information Sharing Conference, enabling foreign, Federal, State, and local law enforcement officers to increase their investigative effectiveness and promoting a closer working relationship among all law enforcement personnel. Also during fiscal year 1992, ATF initiated 323 investigations directed toward posse members and associates. As a result of these investigations, 103 criminal cases charging 243 defendants with various firearms violations have been recommended to the appropriate U.S. attorneys for prosecution, and 304 firearms have been seized. The following cases exemplify some of the significant results during fiscal year 1992:

Fort Lauderdale, Florida.—On February 1, 1992, an explosion killed a Florida highway patrolman while he was taking inventory of the trunk of an impounded vehicle. When he opened a box containing a microwave oven, a pipe bomb detonated, killing the trooper instantly.

A 15-count racketeering indictment was returned, charging 14 individuals with various drug trafficking violations and violations relating to the patrolman's death. The indictment included charges for murder, robbery, witness tampering, death by explosive device, possession and use of an explosive device and possession of firearms during drug trafficking offenses, possession of stolen firearms, money laundering, and numerous drug distribution offenses. All defendants face possible life sentences.

Dallas, Texas.—In September 1992, two significant investigations into Jamaican posses resulted in the dismantling of the firearms/narcotics network on a national

level. Law enforcement officials seized significant quantities of narcotics, firearms and cash, and apprehended 10 violent posse fugitives. In addition, more than 20 Federal and State search warrants were executed throughout the united States. During these investigations, ATF agents uncovered a technique used by posse members to smuggle narcotics and firearms from Texas to the East Coast.

CRIPS AND BLOODS

During fiscal year 1992, ATF initiated 176 investigations directed at Crips and Bloods members and associates. As a result, 206 criminal cases charging 325 defendants with various firearms violations have been recommended to the appropriate U.S. attorneys for prosecution, and 132 firearms have been seized.

The following exemplifies the significant results achieved by the Bureau's Crips and Bloods participation during fiscal year 1992:

Fort Worth, Texas.—On January 30, 1992, 27 members of the Ronald Jerome Fisher crack cocaine distribution organization were indicted by a Federal grand jury in Fort Worth, Texas, for narcotics, firearms, and money laundering charges. Fisher is a former member of the East Coast Crips gang, based in Los Angeles, which is responsible for the distribution of at least 50 kilos of crack cocaine per month in the Dallas area.

On January 31, 1992, ATF participated in the task force roundup. Sixteen subjects were taken into custody, including one in Las Vegas and two in Miami. Twelve firearms were seized during the raids.

This investigation is the result of ATF's participation in the Fort Worth DEA task force. Several of those arrested have agreed to cooperate with ATF against other members of the gang. Members of the task force continue to pursue the remaining 11 suspects.

OUTLAW MOTORCYCLE ORGANIZATIONS (OMO'S)

There are approximately 500 active outlaw motorcycle organizations in the United States consisting of approximately 50,000 patch-wearing members and criminal associates. The largest and most active gangs are the Hells Angels, Bandidos, Sons of Silence, Outlaws, and Pagans. Thirty-four States have chapters of one or more of the top five gangs (Hells Angels, Bandidos, Sons of Silence, Outlaws, and Pagans). The criminal activities associated with these gangs include narcotics trafficking, firearms violations, bombings, arson, prostitution, extortion, burglary, money laundering, and contract killings.

The principle source of income of these gangs is the manufacture and distribution of methamphetamine. During fiscal year 1992, ATF initiated 272 investigations directed at OMO members and associates. As a result of these investigations, 172 criminal cases charging 217 defendants with various firearms violations have been recommended to the appropriate U.S. attorney for prosecution, and 449 firearms have been seized.

The following cases exemplify some of the significant results during fiscal year 1992:

Orlando, Florida.—On December 20, 1989, ATF initiated an investigation into the Warlocks outlaw motorcycle gang in Orlando, Florida. An ATF undercover agent infiltrated the group and was able to gain his "colors." Over the next 14 months, an extensive undercover operation resulted in the purchase of 26 machineguns, 84 pipe bombs, high explosives, and a quantity of narcotics.

At a critical stage in the investigation, a chapter president was murdered. Consequently, a takedown was initiated on March 2, 1991, resulting in the arrest of 45 Warlocks members and the seizure of more than 150 firearms.

During fiscal year 1992, a federally licensed firearms dealer was charged in Federal court with recordkeeping violations in connection with the falsification of firearms records which facilitated the manufacture of the machineguns.

The investigation was a joint venture with ATF, the Florida Department of Law Enforcement, the Volusia County Sheriff's Office, Orange County Sheriff's Office, and the Orlando Police Department.

Twenty-four defendants were charged with various violations of the Federal firearms, narcotics, and explosives statutes. The remaining 21 defendants were charged with various State weapons and narcotics violations. Fifteen of the 24 Federal defendants were convicted in fiscal year 1992.

San Diego, California.—In San Diego, a 1½ year investigation into the Hells Angels motorcycle gang resulted in the conviction of 16 individuals for Federal narcotics and firearms violations. This investigation involved the distribution of more than 300 pounds of methamphetamine.

In October 1991, the primary target of this investigation received a sentence of life without parole. Additional defendants are expected to be indicted for perjury in fiscal year 1993.

ASIAN GANGS

The criminal activities of Asian organized crime groups have increased dramatically in recent years. ATF's enforcement efforts directed against firearms, explosives, and arson violators have resulted in investigations targeting Chinese organized crime, Vietnamese gangs, Korean criminal activity, Japanese organized crime, and Filipino organized crime. Asian gangs are notorious for their violent nature, especially in their use of high-powered firearms for self-protection and protection of their drug trafficking enterprises.

The following exemplifies the investigative results achieved by the Bureau during fiscal year 1992:

St. Paul, Minnesota.—Between 1989 and 1992, 25 Federal firearms licensees (FFL's) in the St. Paul area were burglarized, resulting in the theft of 648 firearms. ATF's discovered that a majority of incidents involved Asian gang members as suspects. ATF actively solicited the cooperation of the FFL's by warning them that Asians gang members were "casing" the establishments prior to burglarizing them. In December 1991, a gun dealer contacted ATF to report that Asian males in his store were acting suspiciously. A surveillance was initiated, which resulted in the arrest of four members of the White Tigers Street Gang after a felony car stop. The suspects were armed with firearms stolen from another FFL burglary in Rochester, Minnesota. A search warrant was executed at a residence in Minnesota, where another gang member was arrested, and eight additional stolen firearms were recovered.

OPERATION ALLIANCE

Operation Alliance is described in detail under the Law Enforcement Firearms Program. It is noted here to indicate its drug-related application.

ACHILLES PROGRAM

Our Achilles Program is described in detail under the Law Enforcement Firearms Program. It is noted here to indicate its drug-related application.

METROPOLITAN AREA TASK FORCE

The Metropolitan Area Task Force, established by the Office of National Drug Control Policy, operates in Washington, DC, under the auspices of the Drug Enforcement Administration (DEA). ATF is an active participant, dedicating three special agents and a group supervisor to this effort. ATF personnel, along with DEA agents and State and local officers, comprise the Weapons Group.

During fiscal year 1992, ATF perfected 27 cases with 51 defendants for firearms violations. Defendants in 24 of those cases were eligible for enhanced mandatory sentencing.

OTHER DRUG-RELATED FIREARMS INVESTIGATIONS

During the past fiscal year, ATF has also obtained several notable convictions and sentences regarding the use of firearms in drug trafficking crimes. The following examples are illustrative of our accomplishments in this area:

Asheboro, North Carolina.—This ATF investigation was initiated following the defendant's shooting of three people during a drug transaction. Subsequent to the shooting, a search of his residence revealed a shotgun and 35.4 grams of cocaine. The defendant was on probation at the time of this incident for a prior narcotics conviction. On August 28, 1992, the suspect was sentenced to serve 5 years in prison for violation of 18 U.S.C. 924(c).

Hato Rey, Puerto Rico.—A joint investigation by ATF and the U.S. Customs Service resulted in the arrest of six individuals as they were attempting to smuggle 288 kilograms of cocaine through the west coast of Puerto Rico. When the subjects were arrested, agents seized a fully loaded M–16 military machinegun with an obliterated serial number and a semiautomatic Intratec pistol. On July 15, 17, and 28, 1992, five defendants were each sentenced to serve 30 years in prison for their violations of 18 U.S.C. 924(c). A sixth defendant was sentenced to 15 years in prison for violation of 18 U.S.C. 924(c). He received a reduced sentence because of the cooperation he provided to the Government during this investigation.

DRUG-RELATED EXPLOSIVES INVESTIGATIONS

Explosives continue to be an instrument of violence perpetrated by drug traffickers and gang members; however, fire and incendiary devices (molotov cocktails) are fast becoming a viable weapon in their arsenal.

Preliminary information for fiscal year 1992 shows that 61 actual and attempted bombings are known to be drug related. These incidents resulted in 9 deaths, 11 injuries, and $302,200 in property damage. ATF also made 173 recoveries of explosives during drug-related cases, and investigated 2 explosives thefts by individuals involved in drug trafficking. With regard to drug-related arson investigations, ATF has investigated 17 incidents thus far that have resulted in 1 death and $3.26 million in property damage.

Provided below are recent drug-related explosives investigations:

Livermore, California.—In September 1992, a defendant pled guilty to charges stemming from an investigation into a vehicle bombing. The defendant had placed a cluster of five pipe bombs on the vehicle in an attempt to intimidate the vehicle owner's son relative to a drug transaction. Further judicial action against the manufacturer of the bomb is pending.

Baltimore, Maryland.—In January 1992, a Jamaican national and suspected illegal alien was arrested and charged with first-degree murder for the deaths of two juveniles. The charges stem from an investigation of a firebombing motivated by an unpaid drug debt.

ORGANIZED CRIME DRUG ENFORCEMENT TASK FORCE (OCDETF)

ATF participates in OCDETF with other Federal, State and local law enforcement agencies. OCDETF targets high-level drug dealers and organizations, and works closely with U.S. attorneys in the task force areas. The following cases exemplify some of the significant results achieved during fiscal year 1992:

Miami, Florida.—On March 19, 1992, a Federal search warrant was executed on the residence of Nathan Stephens, the head of a major cocaine distribution network between Florida, Georgia, New York, New Jersey, and Nevada. His organization is suspected of trafficking more than 100 kilos of cocaine per week.

The search warrant was preceded by an undercover "buy/bust" operation that involved the transfer of 20 kilos of cocaine between undercover officers and two members of the Stephens organization. The suspects were armed with an Uzi pistol during the delivery of the cocaine.

When Stephens was arrested at his residence during the execution of the search warrant, he was armed with a .44 Magnum pistol. Seized for forfeiture was Stephens' residence, $2,000 cash, $100,000 in jewelry, five additional firearms, a computer, and six new vehicles, two of which were customized Mercedes Benzes. Stephens' bodyguard was also arrested.

Atlanta, Georgia.—On January 9, 1992, 10 Federal search warrants and 12 Federal arrest warrants were executed on members of one of the more notorious Atlanta-based street gangs, the "I Refuse Posse." More than 100 Federal, State, and local law enforcement officers, comprising as "Operation Can't Refuse," executed the warrants. The posse is known to be responsible for numerous violent, drug-related crimes in Metropolitan Atlanta, to include murder, robbery, aggravated assault, kidnaping, and narcotics-related offenses. Seized as a result of the warrants were 25 firearms, quantities of powder and crack cocaine, approximately $30,000 in U.S. currency, and 6 vehicles.

ASSET FORFEITURE

On October 6, 1992, legislation was enacted establishing the Treasury Asset Forfeiture Fund. The fund will allow the Secretary to establish uniform forfeiture procedures, budgetary requests, and oversight responsibility for all Treasury law enforcement agencies.

The proceeds of forfeitures conducted by participating Treasury agencies are deposited into the fund. These monies are used for administrative expenses; equitable sharing payments to State, local, and foreign agencies; and the reimbursement of specific forfeiture-related expenses incurred by the participating Treasury agencies.

During fiscal year 1993, ATF and the other participating agencies will continue to assist the newly created Treasury Executive Office for Asset Forfeiture in implementing relative policies and procedures.

HIGH INTENSITY DRUG TRAFFICKING AREAS (HIDTA'S)

The Office of National Drug Control Policy (ONDCP) designated five areas of the United States as HIDTA's, qualifying them for additional Federal monetary and law enforcement assistance. ATF participates in each of the following HIDTA's: New York City, Los Angeles, Miami, Houston, and the Southwest border. ATF will continue in fiscal year 1993 to target gangs and other criminal organizations involved in drug trafficking crimes and firearms-related violence in these areas.

GENERAL FIREARMS EFFORTS

NATIONAL TRACING CENTER

ATF is congressionally mandated to provide support to Federal, State, and local law enforcement officials in their fight against crime and violence. The National Tracing Center meets this mandate by providing firearms trace information to all such entities, including international law enforcement authorities. Firearms tracing has become an integral part of many investigations, aiding in the identification of suspects involved in criminal violations, establishing stolen status, and proving ownership of firearms.

In fiscal year 1992, ATF processed 51,420 requests for firearms traces from various law enforcement agencies. Approximately 50 percent of the traces required the use of our Out-of-Business Records Section.

With specific funding provided by the Committee for fiscal year 1993, the National Tracing Center anticipates moving its facilities to Martinsburg, West Virginia, in early fiscal year 1994.

STOLEN FIREARMS PROGRAM

The first Federal program to address the total spectrum of firearms trafficking was initiated in fiscal year 1992. Amendments to the Crime Control Act of 1990 gave ATF additional jurisdiction regarding stolen firearms that have traveled in interstate commerce and thus expanded Federal jurisdiction to prohibit the flow of firearms to the criminal element.

ATF anticipates impacting on the theft, receipt, concealment, or sale of stolen firearms through intensive, consistent, onscene investigations immediately following the reports of such significant incidents.

The Firearms Interstate Theft Project has been the primary means by which carriers voluntarily report the theft or loss of firearms from interstate shipments to ATF. This continues to be a viable ATF enforcement function. ATF ensures that the firearms are entered into NCIC, initiates an investigative file, and tracks the theft patterns. Since the inception of this program through fiscal year 1992, there have been 12,729 incidents of theft or loss from interstate shipments reported to ATF.

Also during fiscal year 1992, ATF received 641 reports of firearms lost or stolen in interstate shipments, involving 2,324 firearms.

FIREARMS TECHNOLOGY

The Firearms Technology staff provides technical assistance involving the testing and evaluation of firearms, ammunition, and implements of war for proper classification under Federal law and advises State, local, and other Federal agencies on the technical aspects of firearms. The staff conducts firearms tests, classifications, and technical determinations in support of ATF investigative and compliance programs, the firearms industry, and the general public. During fiscal year 1992, approximately 2,200 formal technical examinations were conducted by the Firearms Technology staff.

RESTORATION OF FIREARMS PRIVILEGES

Public Law 102–393 prohibits ATF from expending fiscal year 1993 appropriations on investigations and acting upon applications from individuals requesting restoration of their firearms privileges. During fiscal year 1992, ATF distributed 4,957 applications for restoration privileges, resulting in 813 investigations being conducted. Those applications requiring a decision by ATF resulted in restoring firearms privileges to 194 qualified applicants and denying 298 applications.

ASSISTANCE TO U.S. SECRET SERVICE AND STATE DEPARTMENT

During fiscal year 1992, ATF devoted approximately 19 FTE's for Secret Service and State Department details. ATF was the most utilized Federal agency during the

presidential campaign aside from the Secret Service. The confidence that other agencies have shown in our protective capability favorably reflects on the professionalism of our special agents.

INTELLIGENCE SUPPORT

The Bureau provides law enforcement intelligence and analytical support for ATF special agents and other Federal, State, and local enforcement agencies that have sought assistance. Much of the information provided to other agencies has involved violent criminal gangs throughout the Nation.

In fiscal year 1992, the Bureau acquired two computer systems to enhance its processing of intelligence information: the Defense Intelligence Threat Data System (DITDS) and NETMAP. DITDS is a database and analytical tool developed by the Department of Defense (DOD) to monitor terrorism. The system will allow ATF to access current international intelligence data bases on various national security matters from DOD and other agencies in the international intelligence community. NETMAP is a workstation-based analytical software system that allows analysts to locate, graphically display, and plot communications patterns, interactions, and networks involving criminal groups. The system graphically displays criminal events and relationships, and analysts can then examine the pertinent variables in any number of combinations.

L.A. DIRE EMERGENCY SUPPLEMENTAL FUNDING

Subsequent to the not guilty verdict on April 29, 1992, of the four police officers accused of beating motorist Rodney King, the city of Los Angeles began experiencing major public protests, disturbances and eventually a full-scale riot. Shortly thereafter, Congress enacted the Dire Emergency Supplemental, providing ATF with $5.5 million.

Immediately following the outbreak of the riots, ATF personnel assisted the local authorities in the identification of FFL's in the disturbance area and provided additional law enforcement support to local authorities. An estimated 3,500 firearms were stolen during the riots. A computer database was established to track the number of victimized FFL's, the number of firearms stolen, and document information concerning firearms violators.

On May 1, 1992, 135 special agents were assigned to the Los Angeles metropolitan area to support the permanent staff of 63 agents in addressing riot-related criminal activity. ATF's special response teams (SRT's) were initially utilized to protect and guard the fire fighters during their fire suppression activities. Subsequently, the SRT's were utilized to execute search warrants for the recovery of firearms.

ATF initiated arson investigations in conjunction with Los Angeles area fire investigators into riot-related fires. Investigations into the cause and origin of these fires were conducted by approximately 40 ATF arson specialists, who investigated 65 fire scenes.

ATF received more than 110 telephone calls through our ATF hotline concerning stolen property taken during the riot.

COMMUNICATIONS COMMAND CENTER

In order to meet the growing needs of the law enforcement community, ATF developed a Headquarters national command center on March 2, 1992. The center, which is staffed by experienced special agents, is operational 24 hours a day. All ATF-GUNS hotline calls and Violent Offender Program calls are received by the center and referred to ATF field divisions for immediate action.

Other Federal, State, and local law enforcement agencies contact the command center to verify the status of felons; to ask questions about the firearms, explosives, and arson laws; and to discuss investigative leads and other information.

In the event of a national crisis, the command center's crisis mobilization plan is activated, and a special team of investigators and supervisors oversees field operations from this central location.

CO ALCOHOL PROGRAM

This program ensures the collection of $8 billion in excise taxes on alcoholic beverages; provides prompt deposit and accurate accounting for excise tax receipts; prevents entry into the industry by criminals and persons who pose a risk to the tax through its qualification procedures; protects public safety by investigating decep-

tive or misrepresented alcoholic beverage products; and, suppresses commercial bribery and other unlawful practices in the marketplace.

QUALIFICATION

ATF is responsible for protecting the alcoholic beverage industry from criminals and those persons who are likely to commit tax fraud, commercial bribery, or launder money from drug trafficking or other illicit activities. This is accomplished in two ways:

1. Through financial and criminal background investigations, ATF ensures that permits are not issued to convicted felons or persons whose business experience or associations indicate a propensity toward fraud or illegal activities.

2. ATF ensures that entities already qualified and possessing permits remain in compliance by conducting selective investigations to determine that no hidden ownership, unreported changes in control or ownership, or illegal funding is present.

TAX COMPLIANCE

Historically, ATF has encouraged the alcohol industry to pay the proper amount of excise taxes through a strong revenue examination program. Recent legislation increased the level of effort needed to ensure tax compliance. Tax compliance is achieved by focusing on production facilities that pose the greatest risk to revenue based on the volume of operations, past history of violations, poor internal controls, or questionable financial condition. Compliance Operations conducts office audits of the tax returns and conducts field inspections at production facilities to ensure that these taxes are paid timely, and in full. During fiscal year 1992, ATF collected $8.0 billion in alcohol excise tax. During this same period, tax liability on inventories held by permittees exceeded $27 billion.

ATF continues to upgrade the skills of its tax specialists and other employees by providing them with modern equipment and advanced training. Phase I of the Integrated Collection System (ICS) was successfully implemented. This data base wills track all excise and special taxpayer accounts. Employees will be trained in recently revised procedures and processing techniques. An improved taxpayer assistance program is being developed.

ATF collected over $117.4 million in special occupational tax, (SOT), from over 400,000 manufacturers, wholesalers and retail dealers during fiscal year 1992. Cross checks between the floor stocks tax and special tax databases were conducted to test the level of compliance by wholesalers and identify delinquencies. Collection actions were then initiated on approximately 20,000 liquor dealers who were identified from floor stocks tax returns as not having paid special tax. Significant floor stocks tax and special occupational tax delinquencies include the following:

$350,000 Tax Increase From Major Breweries.—The disclosure of inflated tax credits at one brewery disclosed inflated credits for returned beer at breweries across the country. Brewers were taking credit for beer returned to their premises after January 1, 1991 at the new excise rate, even though the beer had been tax paid at the lower rate, resulting in the brewers receiving twice the credit they were entitled to.

Fort Wayne, Indiana.—Inspectors discovered that a retail liquor dealer was making unlawful sales of wine at wine tastings. Special (occupational) tax was incurred at each tasting where the wine was sold or offered for sale. The company submitted a $30,000 offer to compromise the tax, penalties and interest.

During fiscal year 1992, the Bureau accepted 30 offers-in-compromise, amounting to $439,859 for revenue-related violations. Inspections disclosed over 1,100 violations, numerous referrals to other agencies, and in excess of $2.4 million in increasing tax adjustments. Inspection examples include:

Kansas City, Missouri.—During a recent tax compliance inspection, ATF inspectors discovered that a permittee had failed to timely deposit excise taxes. ATF collected $40,000 for penalties and interest incurred from the late payment.

Fresno, California.—During a tax compliance inspection at a California winery, an inspector discovered a recording error which resulted in an underpayment of excise tax of over $1 million. Forty thousand dollars in interest was collected. Also discovered was a transposition error resulting in an underpayment of $30,000.

Frankfort, Kentucky.—ATF inspectors recently discovered violations regarding proof determination and high solids content products at a distilled spirits plant. This case was settled when the permittee submitted $35,000 to compromise the violations found.

In support of examinations conducted at the premises of revenue producing plants, specialists in regional offices review tax returns and other documents sub-

mitted by revenue producers. These office reviews are an important part of ensuring that excise taxes are collected and that proper payments of claims are made.

Training, such as Advanced Examination Techniques, is being given to field employees so that they are better able to detect tax payment deficiencies. To support field operations, professional ATF auditors are called on to assist with the most complex and sophisticated records of taxpayers, and also serve as a technical resource for other segments of the Bureau.

ALCOHOL PRODUCT INTEGRITY

Over the years, the Bureau has uncovered and taken corrective action on a number of imported products contaminated with hazardous ingredients. In 1985, Foreign wines were found to contain the hazardous substance diethylene glycol (DEG). Imported brandies were found to be contaminated with methanol. Contamination with fungicides and pesticides is a current ongoing concern.

ATF began testing various alcoholic beverages for lead when lead adulteration in wine was identified as a potential problem. Over 600 products were analyzed and the results were shared with the Food and Drug Administration (FDA). After further testing by both ATF and FDA, as well as a request by ATF for a health hazard evaluation, FDA set a temporary level for lead in wine at 300 parts per billion (ppb). In July 1991, ATF released a 2-year study which had been conducted as part of our market basket sampling program. Among samples testing in excess of the FDA's 300 ppb level, the study revealed that decanted wine samples tested higher in lead. Significant lead contamination can result from contact with corrosion products of the lead capsule. Such corrosion is easily dissolved in wine or pouring from bottle to serving container. In a related issue, use of lead crystal decanters was found to contribute to high lead content. This resulted in manufacturers changing their methods to reduce the risk of lead contamination. ATF continues to test representative samples of domestic and imported table wines for analysis to determine lead content. During fiscal year 1992, a random statistical sampling of approved label certificates resulted in the selection of 183 imported products and 612 domestic products to be sampled for lead content. In addition, ATF commenced a random sampling for lead content of table wines produced by the top 10 producers in the U.S. As of October 1992, 735 samples had been analyzed. The following are some examples of our lead adulteration sampling project:

An imported wine was confirmed to have over 300 ppb of lead. The importer and the wholesaler were notified and they agreed to voluntarily detain the product until confirmation analyses were completed. The wholesaler ultimately destroyed the product.

A domestically produced wine consistently tested over 300 ppb of lead. Field investigation revealed the source of the lead was the concrete storage tank in which the wine was produced. The proprietor initiated a voluntary recall of the product from the retail market and has provided ATF with their recall strategy.

Of the 735 samples, an initial analysis disclosed nine imported products and nine domestic products tested over 300 ppb. As these results are analyzed and confirmed, appropriate action, such as removal from the marketplace, will be initiated.

The Bureau also tests for fungicides and pesticide contaminants. During fiscal year 1992, ATF learned that some Italian wines had been adulterated with the pesticide methyl isothiocyanate, (MITC), a soil fumigant. ATF immediately began testing of the suspect brands while simultaneously requesting a voluntary detention of these products by the importers. Upon the receipt of a Health Hazard Evaluation for the Food and Drug Administration, ATF formally detained the inventory at the importer's premises and obtained additional samples. The analysis of these samples resulted in the recall of the affected products, and these adulterated products were either destroyed or re-exported.

Certificates of Label Approval (COLA) are required before alcoholic beverages may be bottled or, in the case of foreign products, imported. In fiscal year 1992, the Bureau processed 63,438 applications for label approval. Each application is reviewed for compliance with regulatory provisions designed to prevent consumer deception and protect public safety. For example, the sulfite warning, Government health warning, varietal and vintage labeling on wine, and proper disclosure of alcohol content are reviewed. There are currently 1.3 million approved labels on file.

Label approval is also an important aspect in our program to ensure that hazardous and/or deceptive products do not enter the market and that taxes are paid at the proper rate. With a shrinking market, incentives for label fraud and tax evasion schemes are increasing.

In the last few years, there have been widespread attempts at label and tax fraud. In some instances, importers have been found to use fraudulent labels to bring prod-

ucts into the U.S. and to understate the tax class of beverage alcohol products. Some fraudulent labels are totally fabricated, including forgery of the Director's signature on the certificate of label approval. These activities result in evasion of excise taxes, deception of the public, and have the potential to eliminate or bankrupt competitors.

Sacramento, California.—In a wine fraud scheme investigated over the past two years by ATF, grape growers misrepresented cheaper grapes as more expensive varietal grapes which were in high demand. Many wineries involved in the scheme were unaware of the grape growers' illegal actions; but we found some wineries who knowingly used the cheaper, non-varietal grape in producing expensive varietal products. The public was deceived by these actions when it purchased expensive wine labeled as being produced from an expensive varietal, when in fact the winery fraudulently used cheaper grapes. In this California case, five persons were convicted with sentences ranging from 3 years probation to 51 months in prison. Four winery officials entered into a plea agreement with the U.S. attorney in which they pled guilty. In addition, under the terms of the agreement, the winery will pay a $1 million fine.

Through field inspections and product sampling, ATF also established a successful warning label enforcement program. The Bureau has forced corrective action in numerous cases where the mandatory health warning statement was neither prominent nor legible, defeating the intent of the requirement.

Due to changing viticultural practices, industry materials costs and market conditions, potential contaminants and fraud opportunities can change over time. Accordingly, the Bureau continually adjusts targeting of trouble spots, selection criteria, and analytical techniques.

During fiscal year 1992, there were a total of 65 labeling cases initiated and a total of 21 label fraud cases were closed. A total of 92 days in suspensions were served by permittees, and a total of $165,000 in offers-in-compromise was collected as settlement of violations.

We continue to find significant instances of label problems by which the public is deceived about the contents of alcoholic beverages. The following are some results of our label fraud program

$60,000 OIC accepted.—An importer falsified 12 label certificates to effect the importation of 2,600 cases of wine, and two terminated label certificates were used to import wine.

$30,000 OIC accepted and 15 day suspension served.—An importer imported 264 cases of distilled spirits without an approved label certificate, 489 cases of mislabeled distilled spirits to evade taxes, and smuggled into the U.S. 16 cases of distilled spirits.

$25,000 OIC accepted.—An importer altered previously approved label certificates to effect the importation of 18,000 cases of distilled spirits and wine. The majority of these products were seized by U.S. Customs Service.

Hartford, Connecticut.—A Connecticut winery faces a maximum fine of $500,000 for presenting a total of 83 false label approval forms to Customs during a two-year period.

21 day suspension served.—An importer imported 1,632 cases of distilled spirits after the approved label certificate had expired, submitted a false invoice identifying the goods as wine rather than distilled spirits, removed 816 cases of product that had no label certificate, and failed to pay Special Occupational Tax.

Open Investigation.—A possible French champagne fraud is under investigation. French authorities have confirmed that the product in question is not produced in the Champagne region of France and that the certificate of origin that was provided to an ATF inspector is fraudulent. We have detained the suspect product pending further investigation.

MARKET INTEGRITY

To enforce commercial bribery provisions of the Federal Alcohol Administration (FAA) Act, ATF aggressively investigates allegations of significant violations. Bureau efforts concentrate on those industry members engaged in commercial bribery and intimidation tactics or inducements designed to restrain free trade. The less complex, intrastate violations are left for State agencies to resolve. Inspectors continue to conduct informational seminars addressing areas of current concern to industry members. The goal has been to increase cooperation between ATF and State agencies and the level of industry compliance. The seminars held last year were very well received by both industry and State agencies.

Enforcement of the advertising provisions of the FAA Act moved to the forefront in fiscal year 1992. In response to public complaints (there is no mandatory pre-

clearance process), advertising matter on a number of competing products were reworked or withdrawn.

One example of this was St. Ides Malt Liquor. It was promoted nationwide in a radio and television campaign featuring "rap" celebrities touting the strength of the product. The Bureau stopped this campaign and accepted an offer-in-compromise of $15,000 along with a stipulated three-day suspension of the permit to settle the advertising violations.

During fiscal year 1992, we accepted a total of 14 offers-in-compromise (13 for trade practice violations, 1 for advertising violations), totaling $176,500. We also imposed two suspensions for three days each (one for trade practice violations, one for advertising violations).

COMPLIANCE OPERATIONS INTERNATIONAL ACTIVITIES

Because of ATF's expertise in the field of domestic and foreign law as it applies to beverage alcohol products, ATF is increasingly being requested to support U.S. Government efforts to minimize or eliminate international barriers impeding U.S. export trade in wine, distilled spirits and malt beverages. For example, ATF is continuing to play a major role arising from the September 1988 United States European Economic Community technical consultations on beverage alcohol products. ATF's participation also aids in the handling of contaminated imported products. ATF representatives attended international wine meetings held in France and Spain to further the acceptance of U.S. wine products in foreign markets. In fiscal year 1993, the U.S. will host the General Assembly of the International Office of Vine and Wine (OIV). ATF is part of the organizing committee for this international meeting of wine industry members.

ATF continues to provide substantial technical data to the U.S. Trade Representative Office with respect to the Wine Equity and Export Expansion Act of 1984. To date, this data has made a significant contribution toward facilitating wine export trade to Japan, Canada, Taiwan, South Korea, and the Caribbean area.

Working with Treasury, the State Department and the U.S. Trade Representative, ATF has accelerated a positive response to the changes in the political map of Eastern Europe. Import companies had advised that at one point there was over $250 million in vodka shipments held up by the dissolution of the Soviet Union and the lack of established procedures to cover importations from the newly established countries. ATF facilitated the shipment of this product by granting an exemption from the requirement for a certificate of origin and allowing the product to be bottled in the U.S. and labeled as Russian vodka until December, 1992.

LE ALCOHOL PROGRAM

ATF has conducted investigations during recent years that have disclosed illegal payoffs, commercial bribery, kickbacks, hidden ownership, and other violations within the alcohol industry. The Bureau has also conducted investigations and assisted State agencies in investigations of the illegal production of alcohol. This activity has subsided considerably because of economic factors and effective enforcement efforts. During fiscal year 1992, ATF initiated 10 alcohol-related investigations and recommended 10 defendants for prosecution.

CO TOBACCO PROGRAM

In fiscal year 1992 tobacco excise tax collections exceeded $5.1 billion. Fiscal year 1993 excise tax collections are projected to increase to over $5.8 billion due to a tax increase effective January 1, 1993, and the accompanying floor stocks taxes. The floor stocks tax, due June 30, 1993, should generate $150 million in revenue. The tobacco program is similar to the qualification and tax compliance aspects of our alcohol program. Applicants for permits are screened and qualification inspections are conducted to keep out those likely to commit tax fraud or to launder money obtained from illicit sources such as drug trafficking. Recent market and legislative changes are altering the once stable environment surrounding the industry. With declining consumption and increased tax rates, field inspections and office review of tax returns and other documents are essential to ensure that taxes are timely and accurate.

The Bureau is developing new inspection procedures and techniques to address the increased risk of diversion of export cigarettes to the domestic market. Enhanced guidelines for inspecting export warehouses were developed as a result of a recent smuggling investigation conducted jointly with Texas authorities.

LE TOBACCO PROGRAM

ATF views contraband cigarette enforcement as primarily a State problem requiring a State solution. ATF serves to coordinate intelligence collection and provide investigative assistance when the jurisdictional limits of a particular State have been exceeded. The Bureau also provides investigative training and laboratory support to State and local agencies as needed. In fiscal year 1992, ATF initiated 13 tobacco-related investigations and recommended 8 defendants for prosecution.

CO EXPLOSIVES PROGRAM

ATF's explosives program ensures that licenses and permits are issued only to eligible persons, that records are maintained in order to permit traces of explosives used illegally, and that explosive materials are stored safely and securely.

Licensing Center personnel review all applications for accuracy and initiate criminal records checks to prevent convicted felons and other prohibited persons from receiving a license or permit. During fiscal year 1992, 4,443 applications were received and processed. Inspectors examine explosives storage facilities before license or permit issuance to ensure that the facilities meet Federal standards for magazine construction and separation distance (from occupied buildings, highways, etc.). Enforcement of these requirements protects public safety.

After a person is issued an explosives license or permit, ATF inspectors conduct periodic compliance inspections. During fiscal year 1992, a total of 4,356 inspections were conducted which disclosed 1,793 violations and resulted in 96 referrals to law enforcement agencies. These inspections ensure that the storage facilities continue to meet ATF safety and anti-theft requirements, and that sufficient records are maintained to enable law enforcement officers to trace the movement of explosives.

Wichita, Kansas.—An explosives compliance inspection at an importer, dealer and user of special fireworks disclosed dangerous storage related violations. The licensee was storing over 21,000 pounds of explosives only 120 feet from an inhabited building. This exceeded the maximum number of pounds by 19,000 feet. Other violations disclosed explosives being stored too close to public highways. This dealer has a very poor compliance history and revocation is contemplated.

Oklahoma City, Oklahoma.—Inspectors joined special agents in conducting a search warrant on a special fireworks dealer. The dealer had long been suspected of selling various illegal fireworks, and had been identified as the source of a five-inch firecracker which blew off the right hand, and several fingers of the left hand of an Oklahoma City man. The dealer is cooperating with ATF and has identified other sources of illegal fireworks.

Compliance Operations auditors assist Law Enforcement agents in arson investigations. The financial auditing expertise of this highly trained cadre is a valuable asset, with the financial evidence often a key to obtaining a conviction. Auditors assisted in 245 arson-for-profit investigations during fiscal year 1992. Examples of explosives inspections and arson investigation assistance include:

Myrtle Beach, South Carolina.—An auditor performed a financial analysis of a $1.7 million arson fire at the residence and business location of an individual. This individual and four other defendants, including Hell's Angels paid to set the fire, were each found guilty on twelve counts of arson, mail fraud and conspiracy.

Kansas City, Missouri.—A financial analysis performed by an auditor established the money laundering aspects of a drug trafficking case. The defendant pled guilty to the drug trafficking charges and faces 10 to 15 years in prison without the possibility of parole.

St. Paul, Minnesota.—A cache of explosives; six pipe bombs, one destructive device, and one can of black powder, were found while questioning an individual who had pawned an illegal fully automatic Mac-11. The individual stated he had made the pipe bombs to blow up his girlfriend. An inspector found the illegal firearm during a compliance inspection and a referral to law enforcement led to the discovery of the explosives.

LE EXPLOSIVES PROGRAM

Through its Explosives Program, ATF strives to make the maximum use of available resources in order to impact and facilitate the investigation of criminal explosives incidents, arson-for-profit crimes, and other arson-related crimes having a significant community impact, as well as to promote an advanced level of expertise through specialized training.

During calendar year 1991, the latest year for which comprehensive information is available, 2,490 reported bombings or attempted bombings occurred, the highest number reported in 16 years. These caused 27 deaths, 246 injuries, and more than

$6.3 million in property damage. In addition, more than 8 tons of explosives was reported stolen in 127 separate incidents, and more than 5 tons of stolen explosives was recovered as a result of ATF's investigative efforts and those of other law enforcement agencies.

Equally alarming are the statistics relating to fire. In 1991, an estimated 98,000 fires were deliberately set or suspected of having been deliberately set. Although the demand for assistance in investigating these fires exceeds ATF's capabilities, the direction and emphasis placed on arson investigative activity is compatible with the overall law enforcement role required to combat the crime of arson. In fiscal year 1992, ATF conducted 533 full investigations of arson incidents nationwide. These incidents involved 60 deaths, 382 injuries, and $230.8 million in property damage.

In fiscal year 1992, ATF recommended 928 defendants for prosecution for violating Federal explosives laws. The cases that follow are examples of ATF's work in these areas:

Atlanta, Georgia.—Sentences ranging in time from 2 to 25 years were imposed in July 1992 for defendants involved in a bombing conspiracy. The defendants were members of a long standing national and international cocaine and marijuana smuggling and distribution organization in the Southeastern United States. The conspiracy was part of an elaborate plan devised by the organization to obtain the release of its leader, who was serving a 30-year sentence in prison for narcotics violations. Ultimately, only two of five intended bombings were committed, the targets being electrical transmission towers.

Hammond, Indiana.—Two principal defendants were convicted and face life sentences for their roles in five bombings that occurred between December 1991 and January 1992. The first bombing resulted in the death of a 65-year-old woman, for which the defendants also face murder charges. Three codefendants, one a former police officer, also pled guilty to similar charges. The intense 3-month investigation revealed that the bombings were used as diversions while the defendants committed burglaries.

Crest Hill, Illinois.—In September 1992, a Federal grand jury returned an indictment charging an individual with violations of the Federal arson, conspiracy, and mail fraud laws. The indictment is the result of an investigation into two arson fires at buildings owned by the defendant, a prominent and wealthy businessman. The second fire was allegedly set in an attempt to obstruct Federal investigations into corruption.

Philadelphia, Pennsylvania.—In September 1992, a fire occurred aboard a naval vessel docked in Philadelphia, causing an estimated $3.5 million in damage. Assistance rendered by ATF at the scene resulted in the determination of the origin and cause of the fire, which was intentionally set using flammable material. Interviewing strategies developed through criminal investigative analysis ultimately resulted in a confession from the perpetrator, who has since been dishonorably discharged and sentenced to 6 years in prison.

EXPLOSIVES INVESTIGATIVE ASSISTANCE

ATF's relationship with other Federal, State, and local law enforcement agencies has helped shape many of its support initiatives. One such initiative is the National Response Team (NRT), which is made up of four specialized teams organized geographically to respond within 24 hours to any scene of a major explosion or fire. In fiscal year 1992, the teams responded to 16 incidents nationwide. Since their inception in 1979, they have been activated 263 times.

An offshoot of the NRT is the International Response Team, through which ATF provides investigative assistance at select fire and postblast scenes on U.S. property where the Diplomatic Security Service has investigative responsibility. ATF also provides technical/forensic assistance and oversight to foreign governments on foreign territory. Thus far, there have been responses to three international explosives-related incidents.

Fifteen arson task forces are located in major cities throughout the United States, pooling the talents and resources of ATF and State and local agencies. They have proved vital in the swift identification and prosecution of those responsible for perpetrating arson fires.

Through ATF's presence at the FBI's National Center for the Analysis of Violent Crime (NCAVC), the Bureau provides criminal investigative analyses (profiles) to Federal, State, local, and foreign law enforcement agencies to assist in bombing and arson enforcement efforts. Currently, a major proportion of arson cases submitted to the NCAVC for analysis are being completed by ATF.

Informal task forces across the United States serve to disrupt illegal or unsafe practices of the manufacturers and distributors of M–80's and similar devices. Ef-

forts are also directed at educating the public on the hazards associated with the devices, which are probably the most unstable and dangerous one can come into contact with. In May 1992, an ATF agent was killed when materials from a clandestine explosives factory prematurely detonated while being prepared for destruction.

EXPLOSIVES TECHNICAL ASSISTANCE

Through the Explosives Incidents System (EXIS) data base, ATF is able to provide investigators with analyses of explosives incidents relative to trends, patterns, bomb components, and *modus operandi*. The International Explosives Incidents System, like EXIS, is a computerized repository of data that will aid in investigating and monitoring international explosives incidents.

ATF is also the focal point for other Federal, State, and local law enforcement agencies to initiate traces of explosives, whether they be commercial or military, or stolen or recovered. In fiscal year 1992, ATF conducted 211 explosives traces.

ATF's explosives enforcement officers provide onsite support and render technical assistance to field personnel and other law enforcement authorities throughout all phases of arson and explosives investigations. In calendar year 1992, these officers prepared 731 destructive device determinations, provided onsite assistance on 208 occasions, and provided expert testimony for 80 criminal trials.

EXPLOSIVES TRAINING

Training has always been a hallmark of ATF's Explosives Program. The program fosters interagency cooperation and enhances investigative capabilities of ATF's agents as well as other Federal, State, local, and foreign law enforcement officers alike.

Training for ATF agents in advanced aspects of crime scene investigation, to include interviewing techniques and the collection and preservation of evidence, has been instituted. Moreover, a number of agents are selected to undergo training each year to certify them as explosives specialists in all aspects of explosives handling, destruction, instruction, and postblast investigation. To ensure the specialists' continued expertise, ATF established a recertification program, the only such program offered by a Federal law enforcement agency.

Selected special agents also undergo intensive training in a 2-year program to certify them as certified fire investigators (CFI's). This program is designed to educate them in the field of advanced fire scene examination, with emphasis on modern principles of fire dynamics, as well as to prepare them to testify in court as expert witnesses and limit the effects of counter-expert witnesses. The CFI training received and the expertise attained have placed ATF well ahead of any other fire investigative agency in the United States. Similarly, ATF provides training in advanced aspects of postblast scene investigation to State and local officers. Approximately 1,000 officers have attended this course. Because of our acknowledged experience in this area, ATF is now regularly called upon to provide like training to State Department embassy officials worldwide, as well as to foreign security officials and investigators.

Additional training programs are designed to educate State and local officers, Federal and State prosecutors, and insurance industry personnel on the crime of arson. ATF also offers a more advanced training program to State and local officers, focusing on improving arson investigation courtroom performance and highly sophisticated elements of fire cause and origin determinations beyond the basic level. Approximately 1,700 individuals have attended these programs.

ATF also oversees the training of canines in accelerant and explosives detection. This training is a product of a joint ATF/Connecticut State Police endeavor that resulted in the standardization of training methods to hone the identification/discrimination capabilities of canines for accelerants and explosives. Currently, 20 trained accelerant-detecting canines have been placed with State and local agencies to support their arson investigation activities. These canines also support the efforts of the NRT. The explosives-detecting canines are deployed worldwide by the State Department and are trained as part of a 3-year agreement instituted in 1992. Training for canines from Cyprus has been completed, and training for canines from Greece has been scheduled.

EQUAL OPPORTUNITY PROGRAM

Year after year, ATF has recounted for you the affirmative action accomplishments achieved in developing cultural diversity in our work force. ATF has been proud of the accomplishments that have been reported annually to the Department, to the Equal Employment Opportunity Commission (EEOC), and to your Committee.

ATF's work force has increasingly become reflective of the nation's diversity over the span of the last two decades. These accomplishments were made with much effort and our reports were accompanied by a sense of pride.

However, recent events have demonstrated that these work force changes were attended by a degree of disputes, complaints, and disruptions that impacted adversely upon the value system ATF advocated and forged within the Bureau, most notably, the value of the concern for people.

Without going into the details of the varying disputes within the Bureau centered around equal opportunity, some of which have merit and others which have proven to lack merit, the Bureau wants to outline and comment on the principal complaints that have surfaced.

1. A group of African-American agents have brought forth a class action complaint against the Bureau.

This controversy is a long-standing matter which the Bureau has attempted to resolve on at least three major occasions. In 1984, I met with a group called Concerned Black Agents to air their concerns and to attempt to ameliorate those conditions of their employment in which they found problems.

The major result of this meeting was the institution of the Minority Impact Program (MIP) which addressed the hiring, recruitment, training, work assignments, and appraisals of minority agents. As noted to you annually, the MIP Program has been highly successful in the targeted areas and has increased the numbers of minorities and women in ATF's work force more than six-fold.

In 1989, after two African-American agents filed a class action complaint, a meeting was held with a group of representative black agents including the two who filed the class complaint and their two lawyers. The major result of this meeting was an agreement to negotiate on a full-time basis, every single item these agents wished to raise. These negotiations were held with counsel for both sides present and, meeting every day for a full week, agreement on every substantive issue raised was reached. The only remaining issue, which was a demand by the two agents who had brought forth the class complaint that they be immediately promoted to a management position, resulted in an impasse. The Bureau for its part has fully implemented every single item with the exception of the Monitoring Committee agreed to since those negotiations took place. Fifteen agents have now brought these matters to District Court.

2. Three sexual harassment complaints were raised.

One complaint was raised by a male agent against his female supervisor. This supervisor then raised accusations that she had been sexually harassed over an extended period. Both of these complaints are currently under review in the complaint system. A third complaint has been verified and the offender will be punished.

CURRENT EQUAL OPPORTUNITY INITIATIVES

As you are aware, these disputes have garnered a great deal of media attention. Because of Privacy Act considerations as well as the time constraints to investigate thoroughly, it is not easy to respond fully to persistent media inquiries.

The Bureau can assure this Committee that these matters are of greatest concern to me and to the management of the Bureau. A variety of steps have been taken to implement resolution of immediate problems and ensure that processes are perfected to avoid future incidents of this nature. A summary of steps taken thus far follows:

A. The Office of Assistant to the Director (Equal Opportunity) has been elevated to the level of Assistant Director, Office of Equal opportunity. The Assistant Director reports directly to me.

B. A "blue ribbon" panel has been established to review procedures and make recommendations that will aid the Bureau in developing the most progressive, state-of-the-art program for combatting discrimination, sexual harassment, and reprisal.

C. The Department's Inspector General has been asked to investigate ATF's handling of the individual cases that had activated media scrutiny.

D. The Office of Equal Opportunity has developed a training program which is mandated for every employee in the Bureau. The training module is a four hour presentation covering all aspects of Equal Employment Opportunity. To date, over 1,000 employees have received this training.

E. The Office of Equal Opportunity's proposal has been funded to have the Defense Equal Opportunity Management Institute (DEOMI) train select Bureau personnel in a 16-week intensive course. Additionally, the Institute conducted a 2-day workshop at the end of February. A total of 155 managers, supervisors, and employees attended the sessions which focused on Executive Leadership and Sexual Harassment. The workshops were held at Headquarters and Chicago.

EQUAL OPPORTUNITY ACCOMPLISHMENTS

As noted above, the Bureau takes pride in our affirmative action program which continues to make substantial progress toward the national goal of a Federal work force reflective of this country's diversity. In fiscal year 1992, 55 percent of the agents added to ATF's agent roster were minorities and women who now represent 26 percent of the agent work force. Of the inspectors added to the roster, 77 percent were minorities and women who now represent 52 percent of the inspector/specialist work force. Overall, women and minorities comprise 49 percent of the Bureau's work force.

The Bureau is committed to Equal Opportunity and this commitment remains an integral part of the Bureau's mission.

LEGISLATIVE CHANGES

Public Law 102–393, effective October 6, 1992, prohibits ATF's expenditure of fiscal year 1993 funds to investigate applicants who are seeking restoration of Federal firearms privileges. Pending application investigations have been discontinued, and the affected individuals have been notified and advised of the provisions of this law.

The Omnibus Budget Reconciliation Act of 1990 (Public Law 101–508) increased excise taxes on distilled spirits, beer, wine, and tobacco on January 1, 1991 and again on tobacco on January 1, 1993. Floor stocks taxes were mandated on all commodities on January 1, 1991, and again on tobacco on January 3, 1993. ATF administered a very successful floor stocks tax collection program for the taxes due on June 30, 1991. ATF will mount a similar effort to collect the floor stock taxes on tobacco which will be due June 30, 1993. ATF projects collection of this tobacco floor stocks tax to be $150 million. This estimate is based on collections for the first phase of the floor stocks tax. Total tobacco excise tax is expected to be $5.8 billion in fiscal year 1993.

MANAGEMENT, ORGANIZATIONAL AND PRODUCTIVITY IMPROVEMENTS

NEW FINANCIAL ADMINISTRATIVE ACCOUNTING AND REVENUE COLLECTION SYSTEM

The Bureau is in the process of installing a new financial system to integrate all aspects of tax collection. The financial system is expected to be completed in fiscal year 1993, and will bring revenue collections and accounting systems into line with the Joint Financial Management Improvement Project (JFMIP) "core requirements". The second phase of the tax collection system is expected to be completed in fiscal year 1996 and will provide a greatly enhanced ability to monitor the performance of taxpayers and target those accounts where additional revenues might be owed.

The Bureau's Integrated Collections System and Financial Management Information System are modernizing our revenue collection and financial management activities. During fiscal year 1993, ATF will take the initial steps required to develop a software application that will lead to an integrated revenue collection system. In addition, beginning in fiscal year 1994, the Bureau's administrative accounting functions will operate using the new financial system. These improvements in revenue collection and financial management will assist the Bureau in complying with the guidelines outlined in the Chief Financial Officer Act.

ORGANIZATIONAL AND PRODUCTIVITY IMPROVEMENTS

In searching for new opportunities to improve operations, the Bureau achieved the following results in fiscal year 1992:

Impressive time reductions in processing applications to make or transfer restricted weapons under the National Firearms Act (NFA) have been realized. Separate processing procedures and forms for NFA special occupational tax were successfully implemented in fiscal year 1992. The new tax form and separate lockbox reduced the time for issuing tax stamps from six months to one or two months. This has enabled the Bureau to more readily identify those persons eligible to make, transfer or receive NFA weapons.

The firearms tracing reports that were developed in fiscal year 1991 continue to be refined. The firearms tracing database tracks the movement of crime weapons from the manufacturer or importer to the dealer. The reports generated from this database are being used to target for investigation those licensees who may be sources of illegal firearms trafficking (e.g., licensees who have an abnormal number of weapons used in crimes traced to them) or that have a problem with maintaining the required records used to trace guns. In conjunction with new inspection initia-

tives to focus our inspection efforts in high crime areas, the tracing reports have become a valuable tool in the Bureau's goal to reduce violent crime.

Importations of firearms, ammunition, and other implements of war for other than government use must be approved by ATF. Revised regulations effective in June 1992 have extended the life of weapon import permits from 6 to 12 months. This extension will allow importers more time to complete their transactions and reduce both the Government's and industry's paperwork processing burden.

During fiscal year 1992, the pilot program initiated the previous year to determine the need for, and benefits to be derived from, providing inspectors with lap top computers was completed. Inspectors in two pilot offices received six months of training followed by a one-year evaluation period. The results of this one year evaluation period were an unqualified success. Efficiency and accuracy were significantly increased. Procurement of additional lap top computers for field offices will now become a future priority.

ATF efforts to secure a high level of compliance with the payment of excise taxes on firearms and ammunition sales resulted in a record $153 million collected during calendar year 1992. The $153 million in excise tax collected represents a 25 percent increase over the previous year. ATF assumed the enforcement and collection responsibilities for this tax from IRS at the beginning of 1991 without any increase in staff.

RELOCATIONS

The relocation of the Bureau Computer Center and National Firearms Tracing Center to Martinsburg, West Virginia, is scheduled to take place during the first quarter of fiscal year 1994. The General Services Administration (GSA) is presently reviewing proposals for the construction of a facility for ATF. Award of a construction contract is scheduled for February 26, 1993, with construction to begin in the spring of 1993.

All ATF downtown Chicago offices will be relocated and consolidated into one building in the main business district. We are working closely with GSA to ensure a smooth and efficient transition to this new facility. This move, which was originally projected for January 1993, is now scheduled for August 1993.

LABORATORY SUPPORT

Our Laboratory began analysis of wines for pesticide contamination in fiscal year 1992. Before this, the work was done under contract to private labs. Approximately 200 samples were tested in fiscal year 1992, many of which were connected to contamination of Italian wines with the fungicide, methyl isothiocyanate. The pesticide detection program will expand in fiscal year 1993.

During fiscal year 1992, our laboratories continued to work with the industry and the Food and Drug Administration (FDA) on the issue of lead contamination in wines. This year, hundreds of wine samples were examined using a method developed by our Laboratory. In fiscal year 1993, FDA is expected to set a final permissible limit for lead in wine that is significantly lower than the current level of 300 parts-per-billion. The ATF Laboratory provides technical assistance on this issue.

In fiscal year 1992, ATF's National Laboratory began entering ballistics information about firearms seized by agents in the Washington, DC metropolitan area into the FBI "Drugfire" program database. "Drugfire" is a regional computer network that permits linkage of firearms evidence in drug-related shootings.

Our Laboratory is assisting in a joint ATF/Connecticut State Police program that tests and certifies dogs trained to detect accelerants in arson investigations. Laboratory instrumentation is used to verify that the substances detected by these dogs are chemical accelerants and not the normal pyrolytic by-products of burned materials.

NEW COMPUTER CENTER MAINFRAME

ATF is nearing completion in our effort to obtain a new mainframe computer to replace the IBM 4341 in our computer data center. Technical and cost reviews have been completed and a recommendation for award has been presented to the Source Selection Evaluation Board. They, along with the Contracting Officer, will recommend a vendor for award of the contract to the Source Selection Authority. If they agree, the contract award process will begin and we should be able to accept delivery by early summer, 1993.

NATIONAL TREASURY EMPLOYEES UNION CONTRACT

The Agreement between ATF and the National Treasury Employees Union (NTEU) expires on November 14, 1993. The contract will remain in effect for yearly periods thereafter, unless either party serves the other party with written notice, by July 14, 1993, of its desire to terminate or modify the agreement. The current Agreement will continue in full force and effect until such time as a new Agreement has been concluded and approved. ATF fully expects to receive substantial proposals over new language and modifications to the current contract from NTEU. During the months of May and June 1993, we plan to contact all supervisors and managers of bargaining unit employees for comments on current contract issues and labor relation concerns. ATF will then be prepared to serve NTEU with appropriate Bureau proposals.

During fiscal year 1992, ATF negotiated with the National Treasury Employees Union an alternative work schedule pilot program for all bargaining unit employees in the Bureau. ATF has taken a proactive role in improving the quality of worklife for employees by offering them a variety of work schedules to better meet the needs of our changing workforce. These opportunities may have a positive effect on retention, recruitment and quality of worklife.

OTHER IMPROVEMENTS

In fiscal year 1992, a task force was formed to evaluate the employee separation process within the Bureau. Through the technique of process management, the task force identified and resolved problems within the current separation/clearance process. The team significantly streamlined the entire process and will be presenting their proposals to an in house steering committee in the near future.

During fiscal year 1992, we provided interpersonal skills training to 500 employees and expect to train an additional 500 employees this year. We are participating with the Office of Personnel Management in research to determine the extent of organizational change resulting from this training.

Random drug testing was conducted during all four quarters of fiscal year 1992. A total of 253 Bureau employees were tested. None of the employees tested positive for the presence of illegal drugs.

In fiscal year 1992 the Bureau reduced its Prompt Payment violation rate from an all time high of 12 percent, realized during the third quarter of fiscal year 1991, to a low of 0.075 percent for the year ending December 31, 1992. With increased management attention and a team approach by the Invoice Audit Center employees, the Bureau's Prompt Payment Act compliance rate has met, and exceeded aggressive requirements set by the Department of the Treasury.

[CLERK'S NOTE: The following statement was submitted for the record.]

STATEMENT OF JOHN P. SIMPSON

Mr. Chairman and Members of the subcommittee, it is a pleasure to appear before you today to discuss fiscal year 1994 budgetary requirements of the Bureau of Alcohol, Tobacco and Firearms. With me today are Stephen E. Higgins, Director, of Bureau of Alcohol, Tobacco and Firearms and members of his staff.

Our fiscal year 1994 request is $364,245,000 with $5 million offset from User Fee Collections, for a net request of $359,245,000 and 4,201 full-time equivalent (FTE) positions. This represents a net funding reduction of $8,853,000 and a net decrease of 60 FTE's compared with the fiscal year 1993 authorized level. The overall reduction includes 65 FTE's and $13,739,000 for nonrecurring costs. This reduction is offset by a program increase of 5 FTE's and $1,658,000 for ATF's Systems Modernization Program; and an increase of $8,201,000 to maintain current levels of operation. Additionally, two user fees are being proposed—the alcohol label approval processing fee and the alcohol laboratory analysis fee—that would offset $5,000,000 of the Bureau's appropriation request. I would like to take this opportunity to give you an overview of Bureau of Alcohol, Tobacco and Firearms from the Treasury Department's perspective.

The Bureau of Alcohol, Tobacco and Firearms conducts operations through four programs: alcohol, tobacco, firearms, and explosives which are applicable to both Compliance Operations and Law Enforcement Activities.

The Compliance Operations activity covers the regulation of the alcohol and tobacco industries relating to revenue protection and product and market integrity; the legal firearms industry through a system of licensing and compliance inspec-

tions; and the explosives industry through a license and permit system for manufacturers, dealers, and users of explosives.

The alcohol and tobacco tax compliance effort focuses on inspecting and auditing production facilities offering the greatest risk to revenue based on the volume of operations, past history of violations, poor internal controls, or questionable financial condition. In this manner, the program oversees the collection of approximately $13 billion in excise taxes annually and protects $27 billion in bonded liabilities.

ATF's Law Enforcement activity enforces the Federal firearms and explosives laws, as well as criminal violations involving alcohol and tobacco tax statutes. ATF maintains an excellent working relationship with State and local law enforcement officials.

In fiscal year 1993, Law Enforcement is focusing its resources to investigate narcotics and firearms traffickers; violent offenders, including violent gangs and career criminals; arson-for-profit; bombings; and other crimes of violence.

ATF has experienced tremendous success with the enforcement of the firearms laws providing for mandatory minimum sentencing through its Achilles Program. As of fiscal year 1993, ATF has established 21 congressionally funded Achilles task forces, the majority of which are comprised of ATF agents and State and local law enforcement officers. Since the inception of the Achilles Program through fiscal year 1992, the Bureau has successfully completed 9,716 criminal cases with 14,216 defendants recommended for prosecution.

Firearms tracing has become an integral part of many investigations, aiding in the identification of suspects involved in criminal violations, establishing stolen status, and proving ownership of firearms. In fiscal year 1992, ATF processed 51,420 requests for firearms traces from various law enforcement agencies.

I am happy to report that the specific funding provided by the Committee for fiscal year 1993, to move the National Tracing Center to Martinsburg, West Virginia, is on track and will be accomplished in early fiscal year 1994.

Mr. Chairman, we at Treasury are all very proud of the men and women of Bureau of Alcohol, Tobacco and Firearms for their contributions to the "War on Drugs" and ensuring that the industries which they regulate are in compliance, particularly with respect to the collection of excise taxes.

With your concurrence, Mr. Chairman, may I ask Director Higgins to present his prepared statement and then we shall be pleased to answer any questions you or other members of the subcommittee may have.

Thank you.

GUNS AVAILABILITY

Senator DECONCINI. Let me just pick up on your reference to too many guns.

I don't think anybody thinks that legislation alone is going to stop people from misusing guns, but it certainly is clear to this Senator, at least, that these guns are so readily available—they are sent through the mail, and they are bought with little or no control. The State of Virginia just put a big control on guns. You can only buy one gun a month. So I'm really handicapped now. I can only buy 12 guns this year. Actually, I can't because I didn't buy any the last 3 months, so I can only buy nine guns this year.

But I don't say that as sarcastically as it may sound. There was a big battle, because there seems to be a real public impression that any restriction is going to foment the Government involvement in our rights and our freedoms.

I have been a strong supporter of the second amendment. I understand the necessity of that. But the guns that we are talking about that were involved in Waco and in North Carolina and Idaho and other efforts that I'll get into when asking you some questions, these are—in your judgment, hunting or sporting weapons? How would you classify the bulk of these weapons?

Mr. HIGGINS. I wouldn't characterize all the guns, because you have covered a broad range.

Senator DECONCINI. Of those that are semiautomatic, such as the AK–47.

Mr. HIGGINS. When we studied the import ban in 1989, one of the tests was whether or not weapons, like the AK–47 and the Steyr-Aug among others, were sporting weapons.

Our study concluded that even though they had originally been brought in for sporting purposes—and there were some who thought that they might be—what we found in actual practice was that they were not being used by any substantial number of people as sporting or hunting weapons. That's why the ban went into effect.

Senator DECONCINI. And how many did you ban in 1988? Do you recall?

Mr. HIGGINS. I think at that time we had applications pending to import somewhere in the neighborhood of 750,000 weapons.

Senator DECONCINI. How many classes of weapons were there? Do you remember?

Mr. HIGGINS. I think there were 44 separate weapons.

Senator DECONCINI. And are those bans still in effect?

Mr. HIGGINS. The bans are still in effect for imported weapons.

SEMIAUTOMATIC ASSAULT WEAPONS LEGISLATION

Senator DECONCINI. Director Higgins, last week I introduced S. 639 that would ban the manufacture and importation of nine types of semiautomatic weapons.

In 1989, as you indicated, President Bush banned some 40 or more semiautomatic assault weapons. Five of those are within this legislation.

I know the administration, other than the Attorney General indicating that she supports this legislation—what is ATF's position on such legislation?

Mr. HIGGINS. Certainly, we are willing to work with you. As you are aware, we help with the Department's formulation of legislative proposals which affect the Bureau.

Maybe Mr. Simpson has some information he can provide on that.

Senator DECONCINI. Mr. Simpson.

Mr. SIMPSON. Yes; as a matter of fact, Mr. Chairman, we have asked the Office of Management and Budget to conduct an expedited collection of the views of all agencies of the executive branch, with an eye toward getting their comments on your bill, so that we can get back to you perhaps by the middle of this month.

We very much look forward to working with you on a bill that will pass.

Senator DECONCINI. Thank you.

And, Mr. Higgins, the culprit in the CIA shooting used a Chinese-made AK–47 to commit that heinous crime. My understanding is that he went into a Virginia gun store a few days earlier and legally bought that weapon, and that your agency was able to track that down by, I believe, the spent rounds that were dropped at the scene; is that correct, those two statements that I just made?

Mr. HIGGINS. I think that's correct, and that is an ongoing investigation so I wouldn't want to go further.

Senator DECONCINI. Can you tell us this on a hypothetical basis, but putting it in a sense of somebody who might misuse an AK–47 in northern Virginia, near the community of Langley or McLean—what would a person like that have to do in order to purchase such a gun?

Mr. HIGGINS. I can use myself as an example. I live near that area, and I could go to a gun dealer and buy that weapon by completing a 4473 and saying that I was not convicted of any of the disabling factors and could take possession of that weapon.

Senator DECONCINI. Immediately?

Mr. HIGGINS. Yes, immediately.

WACO, TX, SEARCH WARRANT

Senator DECONCINI. Thank you.

Mr. Higgins, I want to pursue Waco, TX. I am going to ask you a number of questions here, and I understand if they involve the pending investigation or consideration of the Justice Department or the local grand jury, or whatever is going down there, I understand. But I think we need to start this process which is inevitable.

Can you tell us what factors led to the ATF decision to execute the search warrant on the Koresh compound?

Mr. HIGGINS. The affidavit, as you are aware, is still sealed. I can tell you, since it has been reported other places, that we were concerned both with the manufacture of explosive devices, including handgrenades, and also the manufacturing of automatic weapons.

Senator DECONCINI. And how long had you been working on the investigation, more or less?

Mr. HIGGINS. Since June 1992.

Senator DECONCINI. Can you give us any details about the type of specific information without disclosing something from that sealed affidavit, that ATF had in its possession about the previous violent activities of David Koresh or his propensity toward violence?

Mr. HIGGINS. Mr. Chairman, I really would not like to do that because some of the information came from sources that might be identified in some way which could impede the investigation.

Senator DECONCINI. Can you tell us about some of the weapons and explosives in the compound—some of that has been at least referenced in the press—where they might have come from and what types they were?

Mr. HIGGINS. Without being specific, much of the information is available through sales records. This information includes parts to convert weapons and things of that kind which can be purchased legally in this country. It is using these parts in the manufacture of automatic weapons that causes the problem. These weapons and explosives could have come from a number of sources, without being more specific.

Senator DECONCINI. There was reference in the paper and on the news of UPS and other mailings containing weapons coming in, and speculation, perhaps, of what they were. Were you aware of weapons coming in through the private or public mail service?

Mr. HIGGINS. I wouldn't quarrel with those descriptions in the paper.

INTENDED USE OF WEAPONS

Senator DECONCINI. Did you have any specific evidence that you can share with us that Koresh intended to use the weapons inside the compound against anyone, be it Federal or other law enforcement agents?

Mr. HIGGINS. Mr. Chairman, since the negotiations are still ongoing—and we hope that resolution of the situation is going to be peaceful—I think anything that I say characterizing Mr. Koresh or his potential for violence would have a way of getting back to him, and I think that would probably hurt the negotiations rather than help.

Senator DECONCINI. What about the statements that seem to be—I believe you had confirmed that there were at least two undercover agents inside the compound who were, indeed, giving information to the agency. Is that correct?

Mr. HIGGINS. Without being specific about how many, that is substantially correct.

Senator DECONCINI. There were agents inside?

Mr. HIGGINS. Yes.

Senator DECONCINI. That has been reported in the press, and all I'm looking for is an opportunity to verify it.

Mr. HIGGINS. Yes; that's correct.

Senator DECONCINI. Much of this has been reported in the press, and if you can verify it, that's really what my purpose is in asking the questions.

If that is the case, did any of these agents know that Koresh and his followers had the type of weapons which would be able to cause the severe damage that was caused to your agents, like, as reported in the press, bullets going through the walls?

Mr. HIGGINS. We had sufficient information by which we knew the types of weapons that were in there—maybe not how many had been converted and things of that kind, but certainly that they had high-powered weapons of all kinds.

Senator DECONCINI. If you knew that, then why didn't the ATF arm itself with military assault-style weapons, call in the National Guard, use a SWAT team from the military to try to take over the compound as a frontal assault if you did know the extent of some of the weapons that were there and the dangers that obviously go with that?

Mr. HIGGINS. Mr. Chairman, I suppose that's one of the frustrations about some of the coverage that we have seen. We have been accused of having gone there in a frontal attack and are accused of starting a gunfight. I just want to make it clear that, because of our concern with the innocent men, women, and children—of which there were many in there, and still are—our concern was that we did not want to engage in a frontal assault that would in any way risk their lives. We chose a plan and trained on that basis so we could serve the search warrant without jeopardizing those people.

It is particularly frustrating to be described as an agency that doesn't care about human life when, in fact, we developed a plan designed to protect human life.

The weapons we used were selected with the thought in mind that we would not engage in a fire fight where we fire through walls or we fire through roofs. A military-style frontal assault is not law enforcement policy. That's not good law enforcement. We went there to protect lives, not to take them.

Senator DECONCINI. So it is different than a military assault on a beach where you have an enemy that you want to overpower with fire power. That is not how law enforcement—certainly your agency—approaches someone who you are convinced should be served a warrant and have your permission to go in. You know that they are disobeying the law or violating a criminal law. You don't confront it like you would a military operation. Is that right?

Mr. HIGGINS. That's correct.

Senator DECONCINI. The purpose of that is that you are not there to destroy life or to kill people; you are there to take them into custody under the order of the warrant.

Mr. HIGGINS. That's absolutely correct.

COMPROMISING A RAID

Senator DECONCINI. I think that's important for people to understand. There is a big difference here between assaulting this place with the intent to eliminate the people within versus going in and trying to make an arrest so that these people would not be eliminated and would be then subject to their rights and society's right in a court of law in a system of justice.

There have been allegations, Director Higgins, that the raid had been compromised prior to your entry. Charges have been made that helicopters were flying over, that they had been shot at, that agents knew that the call had been made.

What can you tell us, without getting into the violations, just for the public to know exactly what did the agency know prior to the entrance of the officers on February 28?

Mr. HIGGINS. I think I commented the other morning and I think our people have consistently said with respect to whether the helicopters were there and at what point they were there, so I don't see repeating that other than to say they did not tip off the raid.

I think there are a number of things that will be looked at when this is over—the entire plan, the training, the ammunition.

There are two critical elements, I think, that need to be examined. One is: If it was compromised, who did it? There is an investigation to look into that. The second element to be reviewed is what we knew when we executed the raid. Did we know we had lost the element of surprise? Did we purposely lead our people into an ambush?

I have seen statements from some who were there that day, and I have no quarrel with their statements, but they were just some of the people who were there that day. We need to examine the statements of everyone that was there that day, plus those people who were in the compound, to know what activity took place in there. That will happen. That will occur.

I understand the frustration with people not getting immediate answers to those questions, but I think in fairness to everyone who was there that day, we should wait to do that study to find out.

Senator DECONCINI. How important in the general sense is the element of surprise when you are trying to go in but not overpower them, whoever it is—in Waco, TX, or in Idaho, or whoever it is—not trying to overpower them with fire power, but to get in to protect lives, but yet to make arrests. How important is that?

Mr. HIGGINS. Tremendously important whether you use the word surprise or readiness, but it is tremendously important to be able to go in there, because the plan was for a very quick entry.

Senator DECONCINI. Hypothetically, if you find out prior to going in that the element of surprise has been jeopardized or compromised, what do you do?

Mr. HIGGINS. Now you have taken me into an area I don't want to discuss because of the investigation.

Senator DECONCINI. I don't mean as to this case. Just what would you do in a hypothetical?

Mr. HIGGINS. The person who is there to make the decision would have to take into consideration all the available information and decide whether or not they could safely still execute a warrant, whether or not the people were prepared for them, and would have to exercise some judgment. That judgment would have to be analyzed.

Senator DECONCINI. So equating this to Waco, we have to wait and see when it is all in the open after it is concluded as to whether or not the element of surprise was jeopardized or compromised, when it might have been compromised, and whether or not there was, in a professional or public opinion, justification to proceed if, in fact, it was compromised.

Is that a fair statement?

Mr. HIGGINS. I think that's the fairest thing for everyone to do.

Senator DECONCINI. David Troy, chief of the ATF Intelligence Division, who is down in Waco now, is quoted in the Morning Post as saying, "Quite frankly, someone may decide that we did lose the element of surprise and knew it. Obviously, we lost it. We will probably end up with a mixed bag."

Can you tell us what he means by, "We'll probably end up with a mixed bag"?

Mr. HIGGINS. He probably means, based on other incidents that have happened with other law enforcement agencies, whenever you have a complete review of everything that happened, you find things that people did that were exactly right. You also find other things that people did that they should have done differently, and judgments made that you may not agree with.

So I think he was basically offering a general insight to say that this thing will be extensively analyzed. We'll probably find things we did right and things we did wrong, and we are willing to account for those.

DEBRIEFING AFTER A RAID

Senator DECONCINI. Based on just what you said, when you do raids in execution of warrants, do you do debriefings after all of those raids?

Mr. HIGGINS. We do debriefings, and whenever we have gunshots fired we also do a complete review of how the raid was conducted.

Senator DECONCINI. And so even a successful raid will result in reviewing whether or not it worked and what training was involved and whether or not the element of surprise was compromised or wasn't compromised? Is that standard procedure?

Mr. HIGGINS. Absolutely standard. You need to do that in order to improve.

Senator DECONCINI. Mr. Troy is also stated as saying, "We felt there wasn't compelling evidence that Mr. Koresh knew a raid was planned for the day."

Can you help me, for the record, what compelling is in law enforcement terms if not in this case as to the particular evidence, which I know you can't comment on? But what is compelling?

Mr. HIGGINS. I don't believe I can be any more helpful on that issue. I think this is an area that the review will target and there will be a fair assessment made as to what somebody should have thought was compelling and what they shouldn't have.

CONTINGENCY PLANS

Senator DECONCINI. What contingency plans did your agency have if heavy fire was started?

Mr. HIGGINS. Since we knew there were women and children in there, we knew that we would not engage in a fire fight where we could not see the people that were firing at us. Our contingency plan would have been to withdraw to an outer perimeter to make sure we control the perimeter so that people can't leave, and to establish communications with the people on the inside. The next step of primary importance was to secure some type of cease-fire so we could provide medical services to the people that were injured. Our agents maintained tremendous discipline and bravery under fire.

Senator DECONCINI. Mr. Higgins, prior to the entry of the agents, did you have any reason to believe that the undercover identity of the agents, particularly the one who was inside the compound Sunday—it has been reported that he was in there and left just minutes before, as I recall—had been compromised in any way, or that the raid had been compromised, from what you know today?

Mr. HIGGINS. Again, I don't want to be bureaucratic, but I also realize that what happened in there and what our undercover agent felt and sensed will emerge from the review process. I'm not quarreling with what has been said in the press, but I'm just saying that the undercover agent has given his statement to people who are investigating the raid. There are many other elements that determine whether or not this agency should have, would have, or could have known.

I think the fairest thing to do is to look at those events after the standoff ends and in the context in which statements were given. I'm not quarreling with the reports. I'm just saying that I don't think this is a fair time to assess what is happening in Waco.

Senator DECONCINI. Well, maybe you don't want to answer this one, either, but I feel compelled to continue the questioning, at least.

The reports allege—and that's what I have read and heard on television—that the undercover agent inside on the morning of the

raid knew his cover was blown. And when he left and ran back to the house where the raid was planned, or near there, is there any substance to that allegation? I realize you can't comment on the pending investigation, but it is very devastating to have that hanging out there if, in fact, it is not true and you can say to your knowledge it is not true, without going into realizing a full investigation may turn out something else.

Mr. HIGGINS. I can't say to my knowledge it is not true, because that very well may be the case in terms of his perception. Again, that is a statement that has been given to the Texas Rangers. I really hate to comment on that statement because if I do comment, you will have a hard time understanding what I mean and I would have a hard time justifying why I won't tell you what somebody else said. I believe the entire situation should be examined.

Senator DECONCINI. What about the allegation that suggests that the ATF did not have medical emergency services immediately available? Was that true?

Mr. HIGGINS. That's simply not correct. Each one of the teams has people assigned to it to handle medical emergencies.

Senator DECONCINI. And can you, for the record, give us what each one of the teams would have had? I would just like to have that in the record.

Mr. HIGGINS. Sure.

[The information follows:]

The raid plan called for each special response team to have a medic on the raid team. These agents would have had some formal emergency medical trauma training. The Houston, New Orleans, and Dallas teams were so represented. In addition, ATF had one ambulance dedicated to the operation. The ambulance was staged at the closest intersection to the compound and was staffed with two paramedics. A Medivac helicopter was positioned at the ATF command post and was prepared for immediate response

Senator DECONCINI. Is there any truth to the rumor that some of the wounds suffered by ATF agents were from friendly fire?

Mr. HIGGINS. We have no information either forensically or in any other way through interviews or whatever or other sources which would indicate that's correct.

SIZE OF RAID

Senator DECONCINI. Was this type of raid unusual for your agents in size with the type of fire power that resulted from it?

Mr. HIGGINS. Unfortunately, because we enforce the firearms laws, we engage in many situations where people are violent and heavily armed. This was not an ordinary raid. There were a number of people in an armed compound, so we developed a raid plan accordingly. We have had raids on days where we have served literally dozens of warrants involving hundreds of officers, and they were conducted in a very safe way. We were experienced in serving warrants for unlawful possession of firearms.

Senator DECONCINI. Have you had any raids that amounted to having as many of your officers and local officers or any officers involved in the size of this?

Mr. HIGGINS. Sure. We have had raids where we used hundreds of officers.

Senator DECONCINI. You have had raids involving hundreds of officers? Can you give us an example? Perhaps you would like to supply for the record several cases in the last 2 years or 5 years or something where you have deployed that many officers?

Mr. HIGGINS. We'll do that.

Senator DECONCINI. And those would be probably no-knock warrants also?

Mr. HIGGINS. I avoid using the term "no-knock." We announce our presence almost 100 percent of the time before executing a search warrant. There are instances, usually when a forced entry is involved, where safety considerations can affect the timing of the "knock and announce" procedure.

Senator DECONCINI. I know, but——

Mr. HIGGINS. We announced our presence. We will provide that.

Senator DECONCINI. Thank you. Would you supply that for us?

Mr. HIGGINS. Sure.

[The information follows:]

In April 1985, ATF, along with 200 other Federal, State and local law enforcement officers surrounded the Covenant, Sword and the Arm of the Lord compound. CSA was an armed white supremacist organization. After a several day standoff, Jim Ellison and approximately 75 followers surrendered without firing a single shot. A Federal search warrant issued for the compound resulted in the recovery of 150 firearms—including 35 machineguns—explosives, and destructive devices.

In August 1987, approximately 175 ATF, FBI, deputy U.S. Marshals and 100 Chicago police officers executed a Federal search warrant on an old fortified movie theater in Chicago which served as the headquarters of the El Rukn street gang. The El Rukns were the largest and most violent street gang in Chicago. The Federal search warrant was for Federal racketeering violations, Federal firearms violations, and homicide charges.

In April 1991, 50 ATF agents and 30 New York City police officers arrested 25 members of a Vietnamese gang named "Born to Kill". This gang was involved in armed robberies, extortion, murder, and Federal firearms violations, committing crimes from New York to Florida.

In November 1991, approximately 100 ATF and FBI agents, along with 120 State and local police officers, executed 130 arrest warrants and 5 search warrants on the Miami Boys street gang in Johnson City, Tennessee. The Miami Boys are a violent street gang involved in narcotics and firearms trafficking up and down the east coast.

In January 1993, approximately 100 ATF special agents and State and local officers executed Federal search warrants and 25 arrest warrants on the Latin Counts street gangs in Detroit. The Latin Counts are made up of 12 violent street gangs involved in homicides, narcotics trafficking, and firearms violations.

On February 26, 1993, approximately 100 ATF special agents and State and local officers from Miami arrested eight Jamaican males for possession of six pistols with silencers, one MAC–II machine gun, and two assault weapons. The eight suspects were involved in home invasions and major drug trafficking in the Miami area.

Senator DECONCINI. I understand that you have conducted over 200 operations along this line. Is that possible?

Mr. HIGGINS. In the last year and a half alone we have used the high-risk entry teams in several hundred cases.

Senator DECONCINI. Which had grenades and automatic rifles that were the target of the investigation?

Mr. HIGGINS. I would have to go through them to see, in each case, what was there. But it is certainly not unusual. That's why we have these teams, and that's why the people are trained for high-risk entry.

Senator DECONCINI. Can you supply us with how many people were hurt? Have people been hurt on these raids? Is it exception for them to be injured?

Mr. HIGGINS. These training classes were designed to provide that added degree of safety. In the 4 years we have had the teams, and in the hundreds of times they have been used, we have had one person suffer a minor leg wound.

Senator DECONCINI. So you have had in the last 4 years, over 200 of these raids, a number of them the same size or greater than the one in Waco, TX, with the amount of suspected weapons or the amount of officers involved, and you have only had one injury before this case? Is that correct?

Mr. HIGGINS. Yes.

Senator DECONCINI. What do you attribute that to? The good training of the officers, or planning, or what?

Mr. HIGGINS. I think it is a combination of factors—planning, training, just doing a complete analysis before we go into a situation as to what is the best way to handle dangerous circumstances.

Senator DECONCINI. I have some further questions. I'm going to yield to Senator Bond.

WORLD TRADE CENTER BOMBING

Senator BOND. Thank you very much, Mr. Chairman. At the same time, we have a hearing going on in the VA–HUD Appropriations Subcommittee, and I have a couple of questions I need to get on the record over there.

I had some other questions along the lines that the chairman did about Waco. I think it is probably just—for my part, I think I'd rather just wait until this is wrapped up or until we have another opportunity where we can go into greater detail about that.

I'm going to ask a couple of questions about the World Trade Center bombing and, if we've got those problems, tell us about it. But could you give us, just for the record, a brief description of the role the ATF played in investigating the bombing?

Mr. HIGGINS. I'll tell you where we are and what we have done. As you probably realize, there is a gag order that was issued by the judge yesterday not to discuss the case, and that's probably a good order.

But, in terms of our role, we had two national response teams that responded. They are trained in doing extensive searches of scenes of this kind, to go through and determine the type of explosives used, identify the type of device, and investigate other aspects of the explosion.

Plus, as part of that joint investigative team with the FBI and the New York City Police Department, we have an investigative role on who caused the explosion, plus a crime scene search role with the national response teams.

Senator BOND. Let me ask the broader questions such as the chairman was asking about the firearms. I think it might be interesting to know how easy it is to buy and sell explosives in the United States. If I am John Q. Public from Anywhere, U.S.A., and I want to get some explosives, where do I go? Do I need any identification? Is there a limit on the amount of explosives I can buy? Or is all I need is access to a good high school or college chemistry book?

Mr. HIGGINS. Probably all of the above. Probably the easiest way to see the comparison is that most of the same controls that exist

for the purchase of a firearm vary from State to State. As the States have various firearms laws, so do they have various explosives laws. As a general rule, you can say it is as easy to buy explosives as it is to buy firearms. It is slightly different in terms of the identification you need to provide and the forms to be completed. There is an additional responsibility in terms of if you buy a certain quantity of explosives, they ask you where they would be stored. Essentially it is as easy to buy explosives as it is to buy firearms.

Senator BOND. To what extent do you think that some rather simple chemical substances could be combined to impose the kind of devastation that we saw at the World Trade Center? Is this something that is available readily and in chemistry textbooks?

Mr. HIGGINS. I am no chemist, but my understanding is that there are a number of other publications as well as chemistry books from which people could take relatively commonly available materials and make explosives devices.

Senator BOND. With the same impact, with the same magnitude of impact that we saw at the World Trade Center? Or do you have to go beyond the simple, readily available materials to make a significant hole in a building?

Mr. HIGGINS. Without commenting on the Trade Center Building specifically, you can buy enough materials to make an exceptionally large bomb which will do a lot of damage. So yes; it is just a question of how willing you are to go about that process. It is not without potential danger to yourself when you are building a bomb, but those materials are commonly available.

Senator BOND. I guess what you are telling us is that we are not—there are probably not enough controls that we could put on explosives to prevent somebody from cooking their own and making a very significant explosive device.

Mr. HIGGINS. If the objective were to take away everything that could potentially be used in making a bomb, I think you would take control of many materials, or unnecessarily restrict use of many materials which are just really common, everyday materials.

Senator BOND. You wouldn't have the fertilizer I'd probably be putting on my trees this spring, I gather. Some things like that would be left out.

Mr. HIGGINS. My son-in-law is in that business.

Senator BOND. I'll talk with you about that later.

I guess, then, the conclusion would be that really we've got to have better intelligence rather than control on explosives to find out who is likely to be concocting some kind of explosive. So you can't—is it fair to say you can't cut off the sources for these explosives and you have to gain knowledge about the groups and the motivation and their likelihood of hostile, criminal act?

Mr. HIGGINS. I wouldn't want to give a definitive answer, because I think you could probably control some materials, but certainly you could never control all the materials. I think one of the answers to this problem is better collection of information and better sharing of information. There are other options that people have presented, but controlling all the materials that could ever be used in explosives would be very difficult.

Senator BOND. I think any questions that I would have that go beyond that would probably best wait the outcome of this investigation, as well.

Mr. Chairman, I thank you for yielding to me, and I thank you, Mr. Higgins, and your associates.

PENDING INVESTIGATIONS

Senator DECONCINI. Thank you, Senator Bond.

I don't want to leave the impression, Mr. Higgins, that I am trying to get everything exposed today on this matter, because we will have further hearings on it—feel certain about this—once it is over. But I really feel an obligation to pursue some further discussions at least with great respect to the pending investigations. I am not annoyed at all if you have to say you can't answer. But I would appreciate your responses whenever you can answer. Let me address a few questions.

Newspaper reports describe, of course, the morning of the raid as nervous. Was this behavior unusual?

Mr. HIGGINS. No; I can respond to that without responding to the newspaper article. From information we had gathered over a long period of time, I think David Koresh was always fearful at some point ATF or some other agency would come to do something to him. So I think even the mention of the name ATF would cause him to be nervous.

I would describe him on many occasions prior to that of being nervous about ATF.

Senator DECONCINI. Nervous. And, without drawing a conclusion, it is not unfair to say that could have something to do with the fact that they had gathered so much weapons and ammunition?

Mr. HIGGINS. Maybe by the same token that somebody that has red dye on their hands might be nervous if you were looking for a bank robber.

Senator DECONCINI. I have seen other reports that the cult was not arming itself or preparing to resist when your undercover agent left. Is that your understanding?

Mr. HIGGINS. Again, we are into the issue of what our undercover agent knew and what he came out and said, and I'm not quarreling with anything that has been said to this point. I just think that he was one of the people who were there that day, and there were a lot of other people. A lot of statements have been made and passed around through the news media.

I think the fairest method is to examine all those statements in the context in which they were given, find out what went on inside the compound with respect to what the people inside were doing when they heard various things, and then make a judgment. That reasoned judgment, I think, is a long way off.

Senator DECONCINI. We talked about surprise, and I appreciate that there is an ongoing investigation. Can you confirm that statements have been taken from the people who were there, and will they be available eventually to the public?

Mr. HIGGINS. I can confirm that those statements have been taken. And they will become available, either through the courts or through the subsequent reviews or even by this committee. The statements are not going anywhere and there is no coverup in this

investigation. It is simply that this is not the time to release statements to the public because it would compromise fairness of the investigative process.

WEAPONS ADEQUACY

Senator DECONCINI. The question of weapons given to the agents keeps arising. Were they adequately armed? Can you comment on what weapons were deployed? Are they different from the weapons Federal officers on the scene now are using? Or are they different than what would be used in another similar, if there has been a similar case—and you indicated there has, at least in numbers and amount of suspected weapons?

Mr. HIGGINS. The weapons that were deployed were a range of weapons. Whenever we conduct a raid—and particularly where we are talking about people who are armed and violent—we select weapons that are appropriate for the raid. Weapons selections are made in connection with the team leaders, the commanders, and the raid planners. The weapons that were there and used by the people in forward observing posts, to the shotguns to the handguns to the two-round burst MP–5's, to the AR–15's, all those weapons were ones that had been requested by the raid team planners as being appropriate to what was needed. They were essentially defensive weapons. We didn't go in there armed to shoot through walls and ceilings. I want to make that point again.

I think you asked the question if those are the same ones we would use if we had a similar situation, and the answer to that question is yes. Those are the same ones we are using on the street today, and I would estimate they are the same ones that many, many other agencies use with similar capabilities. So there is nothing unusual about the weapons. We didn't go there for a fire fight, obviously.

Senator DECONCINI. Do you know if any agent asked for stronger weapons or additional weapons and was refused?

Mr. HIGGINS. I don't know what weapons the agents requested. I know that my understanding—and I will qualify this at all times as my understanding—is that the weapons that were provided to the SRT's—the special response teams—were the weapons that they had requested, and we did not deny anyone their request. In fact, I think maybe in one case we added on more of a particular type of weapon.

Senator DECONCINI. There would be little reason, if you had well-trained people and they asked for a type of weapon, not to agree to give it to them; isn't that a fair assumption?

Mr. HIGGINS. It is fair to assume that if they understood that there were innocent people in there, that they would not ask for certain kinds of weapons. I wouldn't say that everybody won't ask for some weapon, but that's not the way you decide. You decide among all the people in a way to ensure everyone's safety.

I can't say that everybody gets everything they request.

Senator DECONCINI. You would have said no.

Mr. HIGGINS. We would say no.

Senator DECONCINI. On the other hand, if part of the team who had been involved in this had said, "Gee, I want something besides

a sidearm," chances are they would have been given it, just on a routine basis if they were part of the team?

Mr. HIGGINS. Yes; as some part of the team, because as teams are built up you have people with special responsibilities and, given their responsibility, they would have had the appropriate weapon.

Senator DECONCINI. In other words, what I'm trying to establish is that the actual team members help make the decision of what armaments are necessary, not somebody sitting in Washington or in the regional office? Is that a fair statement?

Mr. HIGGINS. Absolutely.

INFORMATION GATHERING

Senator DECONCINI. Are the agents—and I'm concerned about these agents who conducted the raid—are they seeing the information that is being gathered and the investigation of the homicides and the leaks or the element of surprise being compromised?

Mr. HIGGINS. No; I do not believe they are, nor have I seen many of the statements that have been given. They are not being given information that is part of the homicide investigation into the deaths of our agents and the potential leak. So they have not seen everything, and that is probably the reason that there is a tremendous frustration. But I have tried to assure them—and I think others have—that those statements have been taken. They will at some point become public, and they are not going to change.

Senator DECONCINI. You can't see these statements because they are part of a pending investigation, and you can't even see it in executive session.

Mr. HIGGINS. I can check in terms of the executive session part of that. We could check with the U.S. attorney and the Texas Rangers and tell you what we could give you and what we can't. I couldn't do that here in an open session, I'm sure.

Senator DECONCINI. I understand.

Mr. SIMPSON. Mr. Chairman, if I may——

Senator DECONCINI. Yes.

Mr. SIMPSON. Some of this information is being collected for a grand jury and may be subject to restrictions on disclosure of grand jury information.

I think there is also the fact that the recollections of any witness becomes colored if he sees the recollections of someone else. In other words, there is a tendency for recollections to converge as they share their testimony with each other.

I'm certainly not in contact with the investigators, but I think that at this point they would prefer not to distribute the testimony they are getting from individual witnesses because of the concern that it will influence other witnesses.

Senator DECONCINI. When I used to practice criminal law a long time ago, they used to call it "invoking the rule" in the grand jury or in the trial where witnesses could not discuss. Has that legal procedure—if it is still applicable—been applied, or do you know?

Mr. SIMPSON. I'm not sure what specific safeguards have been applied, but the impression I have is that at this point the investigators are not interested in disclosing the testimony they have received.

We may know more about this in the months to come.

REVIEWING STATEMENTS

Senator DECONCINI. Mr. Hartnett, you have been there. Can you comment? My concern here is that these agents are not set out here and isolated from what other people are telling either the grand jury or the Texas investigative unit or the U.S. district attorney. It concerns me as allegations keep being presented in the press anonymously that an agent can find himself in an awful bad situation if he doesn't know what other agents or other witnesses may be talking about.

Is there a procedure to—court procedure or legal procedure that has stopped any exchange or reviewing any statements?

Mr. HARTNETT. We share your concern. We had three divisions involved—Houston, New Orleans, and Dallas. And it has come back to me and to the Director that they are very frustrated that they don't have this information.

I have discussed it with the assistant U.S. attorney. There are two separate criminal investigations—the leak and the homicide. They are very concerned that most of the questions emanate out of the leak. He just doesn't want to jeopardize that right now.

So what I have done is ask the Texas Rangers to provide a status of their efforts without compromising their investigation. They went to Houston yesterday and met with all the agents involved in the raid and tried to answer as many of their questions as they could, and they will do the same thing in Dallas and New Orleans. But even the two Texas Rangers feel like they are somewhat restricted. They are not finished with the leak investigation. They have taken a tremendous number of statements and a picture of events is starting to emerge. There may be a grand jury. There isn't a grand jury now.

Senator DECONCINI. There is not?

Mr. HARTNETT. No; but there is a request for one from the assistant U.S. attorney. I just don't know its status.

COUNSELING FOR TRAUMA

Senator DECONCINI. What can your agents who are being interviewed expect or get from your Department for legal counseling or support or counseling other than legal counseling going through this kind of trauma? What is available in legal and nonlegal, et cetera.

Mr. HIGGINS. We have, first of all, a tremendous peer support program, and those peer support people were en route that same day from all over the country—people who have been through shooting incidents—trained people who are agents so they can relate to the individuals. So they were in Waco that day.

We also have a psychologist who is on a regular consulting basis with us, and he was there very quickly. All during this period, both the agents who were there and their families have been receiving this peer support help and any other type of support through the program.

Senator DECONCINI. Can you give them professional help? Can you pay for a therapist or a counselor of some type to be brought in to counsel an agent or their family?

Mr. HIGGINS. Absolutely, and we would.

Senator DECONCINI. And what about the legal aspects? What if one of your agents who is now all of the sudden being interviewed by the Texas Rangers on a homicide investigation or leak investigation and he or she thinks, "Gee, I don't know what I should say. I don't want to jeopardize my constitutional rights." Can he get any legal counsel?

Mr. HIGGINS. Certainly at any point if they felt like anything they might say could be used against them. I don't know that this has happened, but in other types of cases, in any type of case when somebody feels like the questions that are being asked to them are somehow indicative of the fact that they may have a legal problem, certainly they don't have to give statements. And then they come to their managers and explain their dilemma. They can get whatever kind of legal support they want.

Whether or not the Government would represent them obviously has to be based on a determination of whether or not the Government is a part of what has happened or if they are seen as a target.

Senator DECONCINI. I understand. But let's not talk about a Waco agent. Let's say some other agent has gone out there to make a gang and somebody is killed there and so it necessitates thorough investigation, and that agent comes to you as Mr. Director and says, "I just want to ask a lawyer if I have to answer the questions. Am I entitled to counsel?" Will the agency give general legal advice to somebody, and then if it is a particular, individual problem tell them they have to get their own lawyer? I just wonder what the agents can expect from the Department—and that means the Treasury Department, not just ATF.

Mr. HIGGINS. I'm not an attorney. I'm not going to try to answer that.

Senator DECONCINI. Mr. Simpson.

Mr. SIMPSON. If I may, Mr. Chairman, generally if an agent is acting within the proper scope of his duties, the Government will provide legal defense.

There have been cases within the last few years in which agents acted outside the scope of their duties.

Senator DECONCINI. So, barring something that would be determined by you, perhaps, as legal counsel, or the Director, that they were acting outside the scope of their authority, if they wanted a legal question they could get it from you or your Department?

Mr. SIMPSON. They can get help from us and from the Justice Department.

Senator DECONCINI. Thank you.

Quickly, Mr. Higgins—I know we have been here a long time and, believe it or not, there are a couple of questions I want to ask you about your budget—I'll pursue one other one.

Can you tell the committee about the coordination of the law enforcement operations? Was this a normally coordinated effort? Was the Justice Department in on it from the beginning? When did they become part of it? And why wasn't the FBI brought in sooner? Can you explain that to us?

Mr. HIGGINS. This was conducted in the normal way we would have conducted these types of operations. The Justice Department, with respect to assistance with the warrants and development of the case, would have been routinely involved.

Senator DECONCINI. And they were in this case?

Mr. HIGGINS. Yes; in this case, as well. This was simply routine up until the point of February 28.

Senator DECONCINI. Right. Under routineness, when would the Justice Department first have been involved in this case?

Mr. HIGGINS. I don't know the date for that, but I'm sure at least when we had probable cause to obtain a search warrant. Whether it goes back before that, I don't know.

Senator DECONCINI. Can you supply that for the record?

Mr. HIGGINS. We can furnish that.

[The information follows:]

The Justice Department, through the U.S. attorney's office, was brought into the investigation on June 4, 1992. The FBI was aware of ATF's investigation from the beginning since the FBI allowed ATF access to information it had on file on the Davidians. However, the FBI did not actively participate in the investigation until the afternoon of February 28, 1993. Other Justice agencies including DEA, INS and the U.S. Marshals Service were aware of the investigation and were there to assist ATF on February 28, 1993.

SPECIAL TRAINING

Senator DECONCINI. Also, can you give us just a little briefing on what kind of training these special enforcement teams obtain? And what was the training of this particular team?

Mr. HIGGINS. Training is provided at FLETC—at the Federal Law Enforcement Training Center—for all agents, both new agent training and criminal investigation-type training. In addition to that training, we look for volunteers for special enforcement teams. These are people who have shown good tactical ability and leadership ability. We provide to them, as we create these teams, an additional 131 hours of training on tactical situations, responses, leadership, survival, and caring for each other in terms of functioning as a team. That training is the same type that other agencies use for their tactical response teams.

In addition, they train periodically—whether it is every 30 or 60 days—I think in this case it is once a month. They train as members of a team, and also sometimes cross-train with other law enforcement agencies, other SWAT teams.

On this particular raid, as you have seen, in addition to all of that regular training, they also had special training exercises at Fort Hood to train on this particular plan. They had plenty of training. Obviously, if training requirements and methods are reviewed, someone can assess whether they think training is adequate.

Senator DECONCINI. I understand it has been said that there were 75 ATF officers more or less involved in this. Were all of them briefed on this case prior to the execution of the warrant? And were all of them trained in some manner regarding this type of operation?

Mr. HIGGINS. Yes; there were three groups of agents. Some who were on the special response teams, others on the perimeter in support of the teams, and backup agents to process prisoners. Dan can be more specific in terms of the briefing and training received by each group. Each group would have received a raid plan briefing of some kind, because our standard operating procedure is to brief everyone who has a need to know in advance of conducting a raid.

Dan may be able to expand on training.

Senator DECONCINI. Mr. Hartnett, can you tell us what kind of training all of these people had?

Mr. HARTNETT. Yes; there were three SRT teams, and those three teams, of course, were making entry. They had the most extensive training, and that includes training where a mock building is used to practice search warrant entry procedures.

The people who were in prisoner processing—for fingerprinting and preparing routine documents—were given an overview of what the operation was about and what their responsibilities were. The perimeter support agents were also trained and briefed on their area of responsibility. Training lasted about 3 days for the SRT teams, all the way down to 1 day for the processors.

Mr. KNIGHT. Mr. Chairman, if I may make just a general comment for the record——

Senator DECONCINI. Mr. Knight.

Mr. KNIGHT. As recently as yesterday, Secretary Bentsen indicated in an interview with the New York Times how committed the administration was to a thorough investigation of this situation. It should not happen again if it can be avoided, and one of the goals of the investigation would be if any policies or procedures in the future need to be changed in light of the experience in Waco, they will be adopted very quickly.

In terms of the training of the agents, I know that Deputy Secretary Altman, when he visited with the wounded agents, was struck by their extraordinary bravery that they showed. Many of the casualties that occurred in Waco were the result of agents going back into the line of fire to retrieve wounded colleagues. Their training and loyalty to their cause was, I think, quite evident.

POST-WACO INVESTIGATION

Senator DECONCINI. Mr. Knight, thank you.

Who is going to do this investigation?

Mr. KNIGHT. An announcement about the nature of the investigation and how it will be handled will be forthcoming when the situation is resolved.

Senator DECONCINI. Can you tell us if it is going to be an internal investigation or if it is going to be external or combination, or just——

Mr. KNIGHT. I think I'll have to reserve a statement on that for the White House when the situation is resolved in Waco.

Senator DECONCINI. Regarding the White House—I hate to use anonymous, but some have indicated that the White House is calling the shots on the standoff in Waco. These were words I read. Is there any validity that the White House is involved in what is going on down there other than being briefed as to the status of it?

Mr. KNIGHT. I think it is clear that the President has a strong interest in the facts there and the current situation, and Secretary Bentsen has been in regular contact with him in explaining the situation.

Senator DECONCINI. Mr. Knight, for whatever it is worth—and I have expressed this to the Secretary—I hope that in your inves-

tigation—whatever you do internally is certainly up to you—that it is not left with the public or the media that this is so internal that it may not be objective.

I don't know what the investigation will show, but, based on the competence and capability of ATF officers that I have known and worked for even when I was a prosecutor over 16 years ago, and better trained now than ever before, that they can withstand an outside review of an impartial commission, group, committee, or what have you.

I think it is very important that whatever comes out of here is not questioned that it is the good old boys not doing the whole thing or covering somebody. That's free and worthless advice perhaps.

Mr. KNIGHT. We appreciate it.

Senator DECONCINI. Mr. Hartnett, can you comment on the morale of the agents that are down there now? I understand you just came back from Waco, TX.

Mr. HARTNETT. Yes, sir; the morale of the agents is very good. They are frustrated by not having more answers, as is everybody, but the morale is good. We are working with the Texas Rangers very closely, with the FBI and the prosecutors. Everybody wants to be there. Nobody wants to go home. They want to finish it out, if you will. The only frustration is what has occurred in the newspaper reports—the frustration by those that were there: one, that it isn't finished; and, the other, that they don't have all the answers to what happened. We are trying to do our best with that.

FBI HOSTAGE EXPERTS

Senator DECONCINI. And let me just pose this as a statement. I think it is correct. The reason the FBI is there is because they are the experts on hostages, which is now considered a hostage problem. Prior to this being a hostage problem where you couldn't get everybody out, it was considered to be a violation of the firearms laws, which is your primary jurisdiction, and not a hostage problem. You had no evidence that people were being held there against their will; is that a fair generalization? Do you want to comment on it?

Mr. HIGGINS. That's essentially correct. We knew there were people in there who were probably innocent of the charges, so we needed to be aware of them as we served the warrants. But certainly this was a tactical response situation.

Senator DECONCINI. Had you had evidence—and I don't know if you did or not—had you had evidence that someone was being held there as a hostage, then is it fair to say that the FBI would have been brought in with you on this matter?

Mr. HIGGINS. It is hard to speculate and I'm not sure what circumstances would apply. Hypothetical situations are not comparable to real life—I'm not sure I should deal with that approach. I don't know what we would have decided.

Senator DECONCINI. In the past has your agency confronted areas where there are alleged arms violations as well as hostages? Has that ever occurred? Do you know?

Mr. HIGGINS. Yes, it has. I know there have been cases in Utah, Idaho, and Arkansas.

Senator DECONCINI. And in those cases was the FBI part of the initial effort? Do you know?

Mr. HIGGINS. I think in every one of those the FBI has been part of it. I don't know when they were brought in. I believe during the standoff in Idaho, they came in after the shooting of the U.S. marshal.

Senator DECONCINI. Because then hostages were involved?

Mr. HIGGINS. Right.

OPERATIONS EXPENSES

Senator DECONCINI. Well, Mr. Higgins, this has got to be costly, and the New York bombing that you are involved in. I compliment your agency for recovering or coming up with the first evidence that resulted in the arrest in the New York case.

What kind of expenses per diem in travel and what have you have you had to sustain? Can you bear and absorb it in current budgets, or are you going to need additional funds?

Mr. HIGGINS. I can obtain the exact figures for you. It costs approximately $379,000 each week for overtime, travel, and special equipment.

[The information follows:]

At this time, it is estimated that approximately $600,000 will be expended on the World Trade Center bombing. Although we are still reviewing the Waco investigation costs, it has been projected that approximately $4,500,000 will have been expended in fiscal year 1993.

Mr. HIGGINS. As to whether we can absorb it, no one knows when this is going to be over, it is hard to say. What we have spent so far is going to have a dramatic impact on our budget. We are now canceling many activities, and we may have to take even more draconian measures to absorb these costs. I don't see how we can do that, but if we have no choice we have no choice.

Senator DECONCINI. Will you supply us with what things you had to cancel so far—your auditors or whoever manages that for you—and what you would have to cancel if it proceeds for another 30 days, God forbid?

Mr. HIGGINS. We will supply that information.

[The information follows:]

Bureau-wide activities have been put on hold and specific activities have been cancelled as follows. Additional special response teams were not sent to Los Angeles to prepare for a possible civil disturbance, nor to Boise, Idaho for the Randy Weaver and Kevin Harris trial.

Maintenance contracts, vehicle procurements, training, certain mission and training travel requirements, printing of periodicals, and most equipment procurements have been deferred at this time. Bureau-wide supplies for vehicles, ADP, and training have also been deferred.

GREAT PROGRAM

Senator DECONCINI. Mr. Higgins, let me get to a pleasant discussion. The gang resistance education and training program, known as GREAT—can you give me an update, if you can switch gears at this moment, on the GREAT program in Phoenix, and tell me how many students—how is it proceeding?

Also, I understand there have been similar programs in Albuquerque and Honolulu. Can you just give us a little overview of that, please?

Mr. HIGGINS. Last year in Phoenix we trained in excess of 12,000 students through the year in connection with seven of the junior high schools. We also conducted a summer program for 300 or more high-risk youth to provide them with activities during that period.

From all the feedback from the communities and from the police departments that are involved, it has been uniformly positive. In fact, as you know, there is a desire to make that a national program based on the model of the program that you developed, so I think you should be complimented for that.

For fiscal year 1993 we received additional money to expand this program to Albuquerque and to Honolulu. I just signed the reimbursable agreement with the Honolulu Police Department within the last few days.

I think everything is on target with those cities, and I believe the main concern is how to manage the interest in this program, because it is perceived nationally as a program every bit as good as DARE.

Senator DECONCINI. Under the limited experience you have had here, can you administer more programs without the equivalent dollars that you have been getting now? I don't mean no more dollars, but have any efficiencies been brought to your attention where if you were given additional dollars—for example, with x dollars you were able to do three programs, with x dollars now, if x dollars were the same, could you do more than three programs?

Mr. HIGGINS. That's a little tough for me to answer today. I do know that some of this money is through reimbursable agreements where we provide the money to local police departments. Very little of it is used for administrative expenses, so we don't have a lot of play in the administrative area.

But we have worked with those offices to develop more cost-effective ways. I don't know if there is a lot of room to do that, but we are trying. I'll get you some more specific information.

Senator DECONCINI. I'd like to get a break-down on just how much does stay with ATF.

Mr. HIGGINS. Sure.

Senator DECONCINI. I'm under the impression that it is 50 percent or so that stays with ATF, though it is allocated to your Department for additional duties by working with the local law enforcement and may be justified, but I'd like to see that if you can.

Mr. HIGGINS. OK.

[The information follows:]

Of the $2.4 million of G.R.E.A.T. Program funds appropriated to ATF in fiscal year 1993, one-half is designated to support State and local law enforcement in their local community, and the other half is used within the Bureau for operation of the program.

In Arizona, the $400,000 appropriated to support this program is shared by seven cities: Phoenix, Surprise, Tolleson, El Mirage, Glendale, Mesa, and Tempe. Within these municipalities, the program will be taught in 70 schools to over 15,000 elementary school students. In addition, the funding assists the program in Parker, Grand Canyon, Yuma, Chandler, Flagstaff, Sierra Vista, Chinle, and Gilbert.

In New Mexico, the $400,000 supports this program in Albuquerque, Rio Rancho, Farmington, and Bernalillo County. The program is being taught in 26 schools to over 9,000 students.

In Hawaii, the $400,000 is administered through the Honolulu Police Department and supports three gang prevention programs in Honolulu: No Hope in Dope, Positive Alternative Gang Education (PAGE), and the School Attendance Program (SAP).

Of the $1.2 million of program funds used within ATF, salaries consume $840,000 (70 percent), and the remaining $360,000 (30 percent) is dedicated to the following expenses:

—Instructor training will require $100,000 to pay for travel, lodging, and per diem for instructors, students and administrative support personnel.

—Printing and other supplies will require $160,000, of which $85,000 is dedicated to supply more than 300 instructor workbooks and 100,000 student workbooks. These funds will also be used to provide certificates of accomplishment to students completing this program and for other promotional materials.

—As directed by Congress, the remaining $100,000 will be used to contract with an appropriate vendor for an evaluation of the program. This evaluation will provide the basis for reporting on the effect the program has had on deterring gang violence.

EXECUTIVE REDUCTIONS

Senator DECONCINI. Let me pursue this. For fiscal year 1994, your budget includes a reduction of $7.1 million and 60 FTE's from the fiscal year 1993 enacted level. The only program increase in your budget is 5 FTE's and $1,685,000 for the Bureau of ADP systems modernization program.

What I'm most concerned about are the 60 position reductions associated with the President's Executive order which requires a 4-percent staffing reduction for all Federal agencies over the next 3 years.

Your budget indicates that this will mean a reduction of 41 positions in the law enforcement activities and 19 positions from the compliance activities. Your budget justification states that you intend to take 38 positions from the explosive programs to comply with the 1.5-percent staffing reduction as mandated in the President's order.

Given the work of ATF, for the explosive and bombing detections that have just recently been notarized in New York, can you tell me why you would propose a substantial reduction in the area of explosive and bomb detection at this time?

Mr. HIGGINS. Our options were either take cuts in the firearms area, as well, which also has tremendous importance, or in the explosives area. It was a decision between the lesser of two evils—it is not the kind of situation where we think either program can take cuts, but we simply had to take a cut, and we understand that has been applied fairly throughout the Government.

Senator DECONCINI. Pretty much throughout your agency, too. Alcohol compliance and enforcement activity are slated to get a 22-position reduction in 1994. Is that correct?

Mr. HIGGINS. I think that's the correct number.

Senator DECONCINI. And this will take the alcohol law enforcement program from a staffing of six down to three. Can you enforce the laws with three people?

Mr. HIGGINS. We have no choice. We'll do the best we can.

Mr. SIMPSON. Mr. Chairman, we have all got to economize everywhere. Certainly, industry is down-sizing. We are all being more frugal. I have immense respect for Steve Higgins as a manager, and I'm confident that over the next 2½ years he can accommodate

a 4-percent reduction in personnel without a significant deterioration in program performance.

Senator DECONCINI. How can you come to that conclusion? I have great confidence in him, too, but I have a real quarrel with the administration—I must tell you, Mr. Knight—chopping off law enforcement when the President promised 100,000 more officers to local law enforcement. We just put that in the budget at the President's request, and then ask our own Federal law enforcement to take a cut. It just seems absurd.

For you to sit there, Mr. Simpson—don't take this personally—and say you've got confidence that they can do it, I'd like to know how you have that confidence other than the fact that he is a hell of a good administrator.

Mr. SIMPSON. You know, Mr. Chairman, we've got 2½ years to figure out a couple of things. One is whether or not we can take this reduction in law enforcement without diminishing our effectiveness. If we find out that is not so, then we have the same 2½ years to ask OMB to consider allocating a larger share of the pain to someone else.

Something we are always glad to do.

Senator DECONCINI. Mr. Simpson, excuse me. Do you think that it is good management to take a risk with the public interest and safety for 2½ years to figure out whether or not you can do it?

Mr. SIMPSON. I think, Mr. Chairman, if it turns out to be a genuine risk we will have to explore some options, but I don't think any of us wants to tell the President up front from the get-go that a 4-percent reduction is simply out of the question.

Senator DECONCINI. I'll tell the President that. I realize I don't work for him, but I think it is a foolish mistake. I'd like to see someone in the administration in law enforcement stand up and tell the President that. He can say no to you, and you can go ahead and be good soldiers. But if you just sit there and say, "Gee, what do we do? Law enforcement is not a priority. Mr. President, I just have to remind you if you cut us 4 percent we are going to be less effective, notwithstanding the fine director we have or the FBI or anybody else."

Who is the representative of the public interest here? I don't think your marching orders are just, "The President says cut 4 percent. OK. We'll cut 4 percent." What if he said 20 percent? When would it finally come to the point that you or the Secretary or anybody else, Mr. Knight, would say, "Doggone it, that's not right, Mr. President." If you want to do it, you're the President and we'll do it.

If those conversations have already occurred, I think it ought to be known. I'm not here—I don't mean to be as upset as I may appear, but it really bothers me for the administration, which I have defended on the floor of this Senate for the last several weeks on law enforcement and everything else, and then have the attitude from the Treasury Department and perhaps the Justice Department that we're just going to take our cuts.

I really think it is a mistake.

Mr. KNIGHT. I think we should note that there is a process going on within the Treasury Department whereby each of the offices and bureaus are being asked for their staffing plans because of con-

cerns of this sort. In the next 3 weeks, we will be getting those. Where we note inadequacies such as the ones you have described, we will be making adjustments. But there was a certain amount of inflexibility, given the time constraints in assembling the budget, and there was a realization that these numbers may have to be adjusted, and we are trying to move as quickly as possible.

Senator DECONCINI. I'm glad to hear that, Mr. Knight, because I think law enforcement—and I think the American public is not crying for a reduction in law enforcement; they are crying for a reduction perhaps in the IRS and OPM and the post office and many other very good agencies that all do good things, but I just doubt whether there is any big support to cut back on law enforcement because the President made, I think, political gains, and is rightfully compelled to satisfy those political gains once he was elected President by funding 100,000 more law enforcement officials and, at the same time, cutting 60 out of the ATF, and I don't know how many out of Customs or other agencies.

Does that make a lot of sense?

Mr. KNIGHT. Absolutely.

REPROGRAMMING

Senator DECONCINI. Enough said.

Mr. Director, the committee has received a reprogramming request from the Department to cover 10.5 million dollars' worth of shortfall in your personnel compensation benefits and rent and object classifications. The justification states that the shortfall will result from improper budgeting for personnel and benefits of ATF personnel.

Does the President's fiscal year 1994 budget fully cover the expenses of ATF personnel so we do not have to have a similar reprogramming in 1994? If not, why not?

Mr. HIGGINS. If you hadn't asked the second question, we could answer the first question.

Senator DECONCINI. Well, answer the first one first.

Mr. HIGGINS. I'll try to answer the first question.

We tried to do it last year, and here we are with a reprogramming request, so I can't say we have been that accurate at it.

But what we have had and what we think will change this year is we have had practically no attrition particularly in the law enforcement area, thanks, in part, to the pay bill that you are responsible for. So there is good news and bad news with that pay bill. The good news is that people get paid.

Senator DECONCINI. Plus the age was extended, right?

Mr. HIGGINS. Yes; so what we have had is people building their high 3 years of salary toward retirement, and we were experiencing very few retirements. I think all law enforcement agencies are seeing the same thing. It results in a higher pay cost per dollar of existing salaries, so that's why our estimates were off.

We have adjusted pay funding for next year, and having said that, I could well be back here next year telling you that we missed again. But we are trying the best we can.

USER FEES

Senator DECONCINI. Thank you.

Let me pursue just one other area quickly.

Once again I see that the administration is proposing to establish user fees for alcohol labeling and testing activities. The fee will be $50 for each application and $250 for each formal test. You plan to raise $5 million from this. What impact will these fees have on small wineries? What impact will these fees have on distilled spirit, beer, and malt beverages? Do you know?

Mr. HIGGINS. I don't know the exact impact. I suspect it would reduce the number of times they would consider changing their labels if they had to pay that much. For a small winery, fees could be a burden. That needs further consideration.

In some of these cases I see they resolved it by charging different fees and things of that kind.

Senator DECONCINI. If we implemented this as proposed in the budget and $5 million were to come, Mr. Simpson or Mr. Knight, does that $5 million go as additional funds for the ATF budget?

Mr. KNIGHT. I believe it does.

Mr. HIGGINS. I believe so. Yes.

Senator DECONCINI. It does?

Mr. HIGGINS. Yes; up to the $5 million. Anything other than that I think would go into the miscellaneous general fund.

Senator DECONCINI. The general fund. So if it were implemented you would have $5 million additional than what the budget request is before us?

Mr. HIGGINS. Yes; It would be the difference between $364 million versus $359 million, so whatever we collect is what would go to offset our alcohol compliance program.

SUBMITTED QUESTIONS

Senator DECONCINI. Thank you, Mr. Director, and thank you Mr. Simpson, Mr. Knight, and Mr. Hartnett for your testimony here today. We will submit some other written questions. Thank you for staying as long as you have.

Mr. HIGGINS. Thank you.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR DeCONCINI

Senator DeConcini: Why did ATF decide to conduct a raid on the compound instead of trying to arrest Koresh and his chief deputies when they were not on the compound property?

Senator DeConcini: Can you tell us what information you have which led you to believe the cult members were tipped off to the imminent ATF raid?

Senator DeConcini: There have been allegations that conversations on ATF radio communications may have been overheard and possibly this was how the raid information got out. Do you have any reason to believe this is true?

Senator DeConcini: With an undercover agent inside, you must have known there were many children in the compound. What steps did your agents take to ensure the physical safety of the children during the raid?

Senator DeConcini: Can you provide the Committee with your overall assessment on ATF's handling of the execution of search warrants on the Branch Davidians?

Senator DeConcini: I have expressed my concern about the news media being asked to go along on law enforcement raids. It has become more the norm than the exception these days and I don't mean to criticize ATF because all law enforcement agencies do it. Can you tell me the ATF policy with respect to bringing the news media in to participate in law enforcement operations?

Senator DeConcini: Do you always have control over this when you are dealing with other law enforcement organizations, or is this something that is discussed and a decision rendered that all participating law enforcement agencies adhere to?

Senator DeConcini: In the case of Waco, did ATF bring the press to the compound and if not, can you give us any information on how the press were notified about the upcoming raid?

Senator DeConcini: Some in the press have alleged that ATF Supervisors weren't properly briefed on the operation. Is this true?

Senator DeConcini: Can you tell us about the level of experience of the Supervisors who were in charge of the Waco operation?

Senator DeConcini: Can you tell us with all of the Federal agents involved in the standoff at the Waco compound, how 2 individuals were able to make their way into the compound without detection?

Senator DeConcini: Can you provide us with any information on when or how this standoff will be brought to a close?

Senator DeConcini: What options has ATF and the FBI considered to force Koresh and his followers out?

Senator DeConcini: How many people are currently in the compound?

Mr. Higgins: The Department of Treasury has undertaken a comprehensive review of the Waco operation. This review will be completed shortly. Chairman DeConcini and other members of the subcommittee will be briefed personally on all aspects of the Waco operation within six weeks. This briefing will cover all the questions raised by Chairman DeConcini on this matter.

Senator DeConcini: Can you provide us with a status report on the Albuquerque and Honolulu programs and explain how the funding is being utilized?

Mr. Higgins: Presently, four police agencies in New Mexico are funded through cooperative agreements to teach the GREAT Program: the Albuquerque Police Department, the Bernalillo County Sheriff's Department; the Rio Rancho Police Department; and the Farmington Police Department.

In Hawaii, the cooperative agreement supports four gang prevention and violence programs that are administered by the Honolulu Police Department. These programs are: PAGE (Positive Alternative Gang Prevention); SAP (School Attendance Program); AKAMAI (Acquiring Knowledge, Awareness, Motivation, and Inspiration); and the No Hope in Dope Program.

Twelve police officers from Honolulu will attend GREAT training in Tucson, Arizona, this summer. It is anticipated that the GREAT Program will be taught in conjunction with PAGE and AKAMAI.

Senator DeConcini: I know there were concerns expressed last year about the adequacy of training for police instructors. I included an additional $250,000 in the Federal Law Enforcement Training Center budget for the initiation of a GREAT training program at the facility in southern Arizona. Can you tell us about the training and whether or not you believe it is sufficient to handle the demands for GREAT training instructors?

Mr. Higgins: There is a high demand for GREAT officer training throughout the United States. Since the inception of the GREAT Program, only officers of the Phoenix Police Department were certified to teach the program to other police officers. In February 1993, ATF funded a "Train the Trainer" class in Phoenix, Arizona, in which police officers representing 10 different States received the necessary training to become part of the GREAT National Training Team. Currently, the team consists of approximately 25 police officers and one ATF agent.

[Addendum: It should be noted that eight GREAT instructor classes are scheduled this summer at Davis Monthan Air Force Base in Tucson, Arizona. All 288 training positions offered for these classes were filled by June, 1993.]

Senator DeConcini: Does it need to be expanded, if so, can you provide me with your recommendations?

Mr. Higgins: The GREAT National Training Committee, made up of representatives from the Phoenix Police Department, the Federal Law Enforcement Training Center (FLETC), and ATF, is in the process of expanding the National Training Team.

Senator DeConcini: I know there has been considerable interest expressed by communities all across the nation to participate in the GREAT program. Can you tell me if other communities aside from those specifically funded in the appropriation bill have established GREAT programs?

Mr. Higgins: ATF has actively marketed this program in areas of the country where our enforcement activities center around gangs and gang-related violence. This marketing effort has resulted in 14 States and more than 75 communities sending their police officers for GREAT training and implementing the GREAT Program without Federal funding.

Senator DeConcini: What steps do you believe need to be taken to expand the program nationwide?

Mr. Higgins: The GREAT Program could provide regionalized training in the Northeast, Northwest, Southeast, and Southwest regions of the United States. To accomplish this, the National Training Team would have to be expanded to enable regional GREAT officer training.

Senator DeConcini: Does Federal funding need to be provided? If not, how can we assure that other communities develop programs identical in nature to the one in Phoenix?

Mr. Higgins: Existing funding will allow the GREAT Program to continue its current level of training and support for local jurisdictions.

Individual localities would be able to develop programs similar to GREAT without Federal funding.

Senator DeConcini: Does your fiscal year 1994 request include the $2,400,000 to continue the current GREAT programs for Phoenix, Albuquerque, and Hawaii?

Mr. Higgins: The fiscal year 1994 budget request includes $2,224,000 to continue the GREAT Program in the areas of Phoenix, Albuquerque, and Hawaii.

Senator DeConcini: Your fiscal year 1994 budget contains a reduction of $176,000 associated with nonrecurring costs for the GREAT program. Your budget justification states that this reduction is the result of one time only costs associated with furniture and equipment for new personnel who are operating the GREAT program. Can you provide us with a more detailed explanation of this reduction?

Mr. Higgins: The $176,000 in nonrecurring costs is based upon Treasury-approved special agent cost models. One-time nonrecurring expenses include such items as training travel for new special agents, acquisition of automobiles, vehicle supplies, furniture, radios, special investigative equipment, and ADP hardware.

Senator DeConcini: Director Higgins, statement of managers language accompanying the fiscal year 1993 Treasury Appropriations Act directed you to establish division offices in Baltimore, Maryland and Phoenix, Arizona and to staff, fund and equip these offices in a manner consistent with other division offices. I know that the Baltimore, Maryland office has been established and a special agent in charge named. Can you tell me the status of the Phoenix Divisional office, when it will be established and when a special agent in charge will be named?

Mr. Higgins: Establishment of the Phoenix Field Division has been approved by the Treasury Department, and the division will become effective October 3, 1993. Bernard LaForest was named to the position of Special Agent in Charge of the Phoenix Field Division.

Senator DeConcini: Does your agency have sufficient funding to cover the expenses of a divisional office? If so, how much will it cost to operate, staff and maintain this office on a yearly basis?

Mr. Higgins: The Phoenix Field Division has been established with existing funding. We estimate that it will cost $6.3 million annually to operate the Phoenix Field Division.

Senator DeConcini: The final FY 1993 Act specified a minimum staff ceiling of 4,304 full-time equivalent positions for the Bureau of Alcohol, Tobacco and Firearms. The fiscal year 1994 budget shows your FY 1993 staffing level at 4,261, or a reduction of 43 from the authorized and funded level. I would assume that reduction is associated with the President's Executive Order. Is that the case?

Mr. Higgins: Yes, the 43 FTE reduction is the one percent reduction mandated under Presidential Executive Order 12839.

Senator DeConcini: What is your current FTE level?

Mr. Higgins: The Bureau's current authorized FTE level is 4,261.

Senator DeConcini: If you don't have to take the 1 percent cut, would you be able to meet the 4,304 level by the close of this fiscal year?

Mr. Higgins: Based on our most recent assessment of actual year-to-date FY 1993 payroll data, we project our FY 1993 FTEs at 4,189, therefore we will not be able to achieve the original 4,304 ceiling.

Senator DeConcini: Is any of this staffing reduction being taken in the Armed Career Criminal Program?

Mr. Higgins: Because of the growing problem of violent crime in the United States, ATF is not taking any reductions in its Law Enforcement Firearms Program, which encompasses the Achilles Program. The reductions required by the Administration have been taken proportionately from less critical enforcement programs.

Senator DeConcini: The bill also established a minimum staffing level of 1,440 FTEs for the Armed Career Criminal program. What staffing level is currently devoted to Armed Career Criminal and do you anticipate meeting that ceiling by the close of this fiscal year?

Mr. Higgins: The Bureau fully anticipates achieving the 1,440 FTEs in the Achilles Program for FY 1993.

Senator DeConcini: The fiscal year 1992 supplemental provided $5 million for ATF to hire and equip an additional 200 special agents for Project Achilles violent crime task forces around the country. An additional $14.341 million was provided in the FY 1993 bill to annualize the costs of those positions. Can you tell us the status of those positions, have all 200 been hired, if not when do you plan to meet that goal?

Mr. Higgins: All of the positions contained within the FY 1992 Dire Supplemental for the Achilles Program have been brought on board.

Senator DeConcini: Can you provide us with a listing of the communities where the agents have been or will be placed?

Mr. Higgins: The following is a list of cities and states where the new agents have been placed:

Alabama:	Montgomery
Alaska:	Anchorage
Arizona:	Phoenix, Tucson
California:	Oakland, Long Beach, Los Angeles, Riverside, Sacramento, San Francisco, Van Nuys
Colorado:	Colorado Springs
District of Columbia:	Washington
Florida:	Ft. Lauderdale, Miami, Tallahassee
Illinois:	Chicago, Oakbrook
Indiana:	Merrillville
Iowa:	Des Moines
Kansas:	Wichita
Louisiana:	New Orleans
Maryland:	Baltimore
Massachusetts:	Boston
Minnesota:	St. Paul
Mississippi:	Jackson, Oxford
Missouri:	Cape Girardeau, Kansas City, St. Louis
Montana:	Helena
New York:	New York
North Carolina:	Charlotte, Fayetteville
Ohio:	Cincinnati, Cleveland, Columbus, Toledo
Pennsylvania:	Philadelphia
South Carolina:	Greenville
Tennessee:	Nashville
Texas:	Houston, San Antonio
Virginia:	Falls Church, Norfolk
Wisconsin:	Milwaukee

Senator DeConcini: How many Achilles task forces do you presently have in operation?

Mr. Higgins: There are currently 21 operational Achilles task forces.

Senator DeConcini: Can you provide us with a summary of the success of these task forces, how many guns were seized, how many individuals were arrested, etc?

Mr. Higgins: The cumulative statistics for Achilles task forces since their inception in 1990 are as follows:

Investigations initiated	3,121
Defendants recommended for prosecution	2,468

Additionally, the task forces have seized 3,364 firearms and confiscated more than 70 pounds of cocaine; 62 pounds of crack cocaine; 32 pounds of heroin, and 2,288 pounds of marijuana.

Senator DeConcini: The fiscal year 1993 report instructed ATF to establish a "Project Uptown" in Baltimore, Maryland. Can you provide us with a status report on that directive and provide information on the results to date?

Mr. Higgins: The Baltimore "Project Uptown" has an operational target date of August 8, 1993. The General Services Administration has been working on obtaining the necessary office space. The group will be staffed with one ATF supervisor, six special agents, one housing police officer, and two Baltimore police officers.

Senator DeConcini: The fiscal year 1993 Treasury Appropriations Act included a provision prohibiting the expenditure of funds by the Bureau to implement relief from Federal Firearms disabilities. It was estimated that $4 million would be saved from the prohibition in fiscal year 1993. What has been the impact of the firearms disability prohibition and what has been the cost savings to ATF?

Mr. Higgins: The funds earmarked for restoration of firearms privileges have been applied to the Achilles Program, enabling the Bureau to achieve more than 270 additional firearms investigations.

Senator DeConcini: Do you believe this prohibition should be continued?

Mr. Higgins: We agree that this prohibition should continue until a permanent solution is mandated by Congress.

Senator DeConcini: In fiscal year 1993, the Senate report directed ATF to increase its support to Operation Alliance by 3 FTEs. Can you tell us if that has been accomplished? What is the total number of ATF staff support assigned to Operation Alliance?

Mr. Higgins: ATF has increased the FTEs assigned to Operation Alliance from 59 FTEs in FY 1992 to 62 FTEs in FY 1993.

Senator DeConcini: The final fiscal year 1993 Treasury Appropriations Act contained a general provision which instructs ATF to deny any application for a certificate of label approval for Crazy Horse malt liquor. Can you tell me what effect this provision has had on ATF's action to deny a label approval for Crazy Horse?

Mr. Higgins: On October 6, 1992, the Treasury Department, Postal Service and General Government Appropriations Act, Public Law No. 102-393, 106 Stat. 1729, 1777 (1992) was enacted. Section 633 of this Act requires ATF to "deny any application for a certificate of label approval, including a certificate of label approval already issued, which authorizes the use of the name Crazy Horse on any distilled spirit, wine, or malt beverage product."

By letter dated November 17, 1992, ATF advised G. Heileman Brewing Company of the provisions of this law, and provided the brewer with a 30-day period in which to submit written arguments or evidence to show cause why the statute did not require the denial of two pending applications for label approval for "Crazy Horse" malt liquor, as well as the cancellation of five existing label approvals for the product. The brewer did not respond to this notice; instead, the distributors of "Crazy Horse" malt liquor filed an action challenging the constitutionality of section 633.

Senator DeConcini: Has this provision been litigated, if so, what has been the result?

Mr. Higgins: The distributors of "Crazy Horse" malt liquor brought suit in the United States District Court for the Eastern District of New York. The plaintiffs raised six constitutional challenges to the law, including a claim that the law suppressed speech in violation of the First Amendment.

[Addendum: In a decision dated April 7, 1993, the District Court granted summary judgment in favor of the plaintiffs, finding that the law was unconstitutional on First Amendment grounds. The District Court found that since the First Amendment prohibited enforcement of section 633, it was

unnecessary to address the remaining issues raised by the plaintiffs.

An order granting the plaintiffs' motion for summary judgment was issued on April 9, 1993. On April 23, 1993, the district court issued an amended judgment, declaring section 633 to be unconstitutional, and permanently enjoining the Government from taking any action to deny, revoke, rescind, cancel, or otherwise interfere with already issued certificates of label approval pursuant to section 633. On June 11, 1993, the Justice Department filed a notice of appeal, but the Solicitor General has not yet made a final decision regarding appeal in this case.]

Senator DeConcini: Do you have any suggestions on how this label can be denied without raising constitutional conflicts?

Mr. Higgins: ATF believes that it is premature to consider alternative courses of action while the constitutionality of section 633 is still being litigated. Should we ultimately receive an unfavorable decision from the courts, we will be ready to consider the feasibility of alternative approaches to this issue.

Senator DeConcini: In fiscal year 1993, the Congress mandated a minimum funding level of $22,000,000 for enforcing the provisions of the Federal Alcohol Administration Act. What level of funding do you plan to devote to enforcement of FAA in fiscal year 1993?

Mr. Higgins: It now appears we will fund $22 million for activities under the FAA Act. Funding is at the minimum level because adverse court decisions have made most trade practices cases we would have brought in the past nearly impossible to pursue successfully. We are working on clarifying the definition of "exclusion" in the regulations. Once this process is complete, it should reopen this arena for Federal action. Labeling, advertising, qualification under the permit system, label frauds and other matters under the Act have remained the same or increased slightly.

Senator DeConcini: I notice the Administration once again is proposing the elimination of the language specifying a floor for FAA in fiscal year 1994. What level of funding has been budgeted for FAA in fiscal year 1994?

Mr. Higgins: The government-wide reduction is being taken from the Alcohol Compliance program. Activities directly related to the collection of revenue will be maintained at current levels. We

therefore anticipate that most of these reductions will impact FAA Act related activities, such as trade practices, the permit system, sampling programs, etc. As a result of these mandated government-wide reductions, FAA Act spending will probably be no more than $19.5 million in fiscal year 1994.

Senator DeConcini: Your budget justification states that in fiscal year 1993 you intend to initiate 10 alcohol criminal cases and recommend 10 defendants for prosecution. For fiscal year 1994, the number will drop to 5 and 5. Why have any staff allocated to this function at all with this very minimal productivity level?

Mr. Higgins: Although activity is minimal in this program, a need remains for alcohol enforcement, especially as a result of criminal activity along the Canadian border. However, as a result of the Administratively mandated cuts, the Bureau has attempted to equitably reduce FTEs in all noncritical program areas.

Senator DeConcini: While your budget summary shows a staffing reduction from fiscal year 1993 of 60 FTEs, your tables in the back of your justification shows a 65 FTE and $3.801 million reduction in support of the President's executive order on Federal staffing. Where are the additional 5 positions to be taken from and what is the justification?

Mr. Higgins: The FY 1994 65 FTE reduction is taken from the Compliance Alcohol program (-21 FTEs), and the Enforcement Alcohol (-3 FTEs), and Explosives (-41 FTEs) programs. These programs were selected in order to avoid reducing the firearms program which cannot spare resources in the fight against armed career and violent criminals. The additional 5 FTEs associated with the President's initiative for Bureau systems modernization are added to the Compliance Alcohol (+2 FTEs) and Enforcement Explosives (+3 FTEs) programs.

Senator DeConcini: The fiscal year 1994 budget includes an increase of 5 FTEs and $1.685 million for the Bureau Systems Modernization Program. Your justification states that this increment of funding will cover the cost of implementing Phase I of the Federal Financial System. What are the total costs for this project and when will the remainder of funds be requested?

Mr. Higgins: The $1.685 million requested in FY 1994 is targeted to support Phase II of the Integrated Collection Systems and the Financial Management Information System project. The major

goal of the ICS portion of Phase II is to fully develop a single integrated revenue collection system to replace the multiple tax and fee databases currently being used. Ultimately, one General Ledger system will be used for both the ICS and the FMIS and separate funds will be used to track this data.

FY 1994 funding is also being requested to support the FMIS component of Phase II which is a plan to implement additional core financial modules in the Federal Financial System (FFS). These include: Procurement and Property, Budget Formulation, Fixed Assets, Electronic Data Interchange, Bankcard Data Interchange, and Ad Hoc reporting. These modules will further enhance the Bureau's financial management capabilities.

The Administration is currently formulating final cost estimates associated with this project. Total costs and completion dates are very much dependent upon availability of resources in this time of budget constraints.

Senator DeConcini: What will be the impact if this request is not fully funded in fiscal year 1994?

Mr. Higgins: A delayed implementation schedule will not allow the Bureau to capitalize on anticipated ICS benefits, such as consolidated tax-related databases, employee productivity improvements, enhanced auditing capabilities and increased revenue collections in the most timely and effective manner. This delay will also prevent the Bureau from complying with all nonconformance financial management issues contained within the Chief Financial Officer's Act of 1990.

Senator DeConcini: Why are 5 FTEs needed to support this initiative?

Mr. Higgins: The Bureau requires 5 FTEs to support the full range of ICS/FMIS capabilities in the areas of project management and software engineering. This will provide the Program Office with the capability to manage the development of Phase II, to provide Compliance Operations and Law Enforcement support during the development and to provide continuous support to operational programs. The software engineers will ensure that the development methodology is adhered to, conduct inspections, approve development documentation and design, maintain the change control process and participate in all development efforts. Upon completion of the ICS/FMIS project, the software engineers will transition to a software support role to handle defects, enhancements and customer support.

Senator DeConcini: Can you please provide a detailed listing of the estimated number of applications and tests to be performed in fiscal year

1994 on each of these separate categories of beverage producers?

Mr. Higgins: In the past year, ATF received and processed approximately 60,000 label applications. This amount has been constant for the past several years. Submissions of alcoholic beverage product and flavor formulas and laboratory analyses for the past year have totaled approximately 8,000.

Senator DeConcini: It is my understanding that these fees would also apply to the flavor industry. Why do flavors fall into this category and what would be the effect of these fees on the flavor industry?

Mr. Higgins: Flavor manufacturers frequently use taxpaid alcohol as a solvent for their flavors. To be eligible to claim a refund of the tax on the alcohol, the manufacturer must pay a special occupational tax and obtain approval of the formula for the product. When the formula is approved by ATF as a bona fide flavor, the manufacturer can claim a refund or "drawback" of $12.50 of every $13.50 in tax paid on the alcohol used to make the product.

The flavor industry is composed of a few large companies and many smaller companies that tend to specialize. The fee would probably have a negligible impact on the large companies. However, the smaller companies frequently make special order products which may only be 5 to 10 gallons. If the manufacturer is charged $250.00 to file a formula, it would cost more to file the formula than he could receive in drawback. Since this is an across the board fee, it would impact all producers and be passed on to purchasers.

Senator DeConcini: How many flavor applications and tests do you expect to receive in fiscal year 1994?

Mr. Higgins: If there were no changes in the system, we would expect to receive about 5,000 such items, similar to previous years. However, if user fees are imposed, the number of submissions will most likely decrease. Under these circumstances, a 10 to 20 percent reduction could be anticipated.

QUESTIONS SUBMITTED BY SENATOR BYRD

Senator Byrd: Mr. Higgins, the report accompanying the Fiscal Year 1992 Treasury, Postal Service Appropriation bill included the following language, incorporated at my request:

BUREAU OF ALCOHOL, TOBACCO AND FIREARMS ADP FACILITY

The Committee included language in last year's report noting that the Bureau of Alcohol, Tobacco and Firearms must relocate its automatic data processing [ADP] facility due to potentially disastrous disruptions resulting from a renovation, scheduled for 1993, of it current location at the Interstate Commerce Commission building in Washington, DC. The Committee directed the Bureau to initiate a study for the purposes of considering the feasibility of relocating the ADP facility to a low-cost area reasonably proximate to Washington, DC. In response to this language and in written testimony before the Committee, the Bureau has indicated that, after discussions with personnel of the General Services Administration and other interested agencies, the Bureau is pursuing a location in the Martinsburg area of West Virginia as the most desirable location, in terms of proximity to Washington and overall costs, for its computer operations. The Bureau of Alcohol, Tobacco and Firearms and the General Services Administration are encouraged to continue to work together to facilitate the completion of the project on a timely basis. The Bureau is directed to submit a status report to the Committee within one month of enactment of the legislation, including significant milestone events leading to the full implementation of the project.

Subsequently, the report accompanying the Fiscal Year 1993 Treasury, Postal Service Appropriation bill included the following language, also incorporated at my request:

BUREAU OF ALCOHOL, TOBACCO AND FIREARMS ADP FACILITY

The Committee included the requested $1,500,000 to relocate the Bureau of Alcohol, Tobacco and Firearms' automatic data processing [ADP] facility. The Bureau of Alcohol, Tobacco and Firearms and the General Services Administration are encouraged to continue to work together to facilitate the completion of the project on a timely basis. The Bureau is directed to submit a status report to the Committee within one month of enactment of the legislation, including significant milestone events leading to the full implementation of the project.

In following up on the enactment of the FY 1993 Treasury, Postal Service Appropriation bill, I directed a letter dated October 23, 1992, to Stephen E. Higgins, Director of the Bureau of Alcohol, Tobacco and Firearms, soliciting a schedule for implementation, including significant milestone events. Director Higgins' response of November 9, 1992, provided the following milestone schedule:

Market Survey	10/21/92
Issue Solicitation for Offers	10/30/92
Initial Offers to GSA	11/20/92
Best and Final Offers to GSA	12/11/92
Award of Contract by GSA	12/24/92
Occupancy of Facility by ATF	09/15/93

I also directed a letter to Mr. Richard G. Austin, Administrator of the General Services Administration, dated October 23, 1992, soliciting a schedule for implementation, including significant milestone events. Administrator Austin's response of December 15, 1992, indicates that action to acquire a new 35,000 square foot, free-standing, one-story leased building to be constructed for the Bureau of Alcohol, Tobacco and Firearms is on schedule for September 1993 delivery. Significant milestones are as follows:

Market Survey	10/19/92 - Actual
Solicitation for Offers Issued	10/30/92 - Actual
Offers Due	11/27/92 - Actual
Best and Final Offers	12/10/92
Award	12/31/92
Occupancy	09/93

However, in January 1993, I received a revised schedule of significant milestone from the General Services Administration. I was told that the revised schedule is the result of receiving a far greater number of offers than anticipated from the market survey. In addition, the quality of information received in GSA from the offerors was poor and required clarification. Listed below is the original schedule and the revised schedule:

	Original Schedule	Revised Schedule
Market Survey	10/22/92(A)	N/A
Solicitation Offer Issued	10/29/92(A)	N/A
Initial Offers	11/27/92(A)	N/A
Best and Final Offers	12/10/92(E)	01/30/93(E)
Award	12/31/92(E)	03/15/93(E)
Occupancy	09/30/93(E)	11/30/93(E)

I am advised that the contract will soon be awarded. Please provide for the record, an updated status of the project which is expected to house 80-90 employees, with an annual economic impact of $5-6 million.

Mr. Higgins: The actual construction contract was awarded on March 29, 1993 to Van Wyck Enterprises Inc. of Martinsburg, West Virginia. Subsequent to this award, protests were filed by two prospective builders and are currently being reviewed by the General Accounting Office.

[Addendum: The General Accounting Office settled the two protests on May 24, 1993. Due to the protests, work was suspended on the project, thus delaying the anticipated occupancy date. An updated milestone schedule is provided below:]

	Original Schedule	Revised Schedule
Best and Final Offers	12/10/92 (E)	01/30/93 (A)
Award	12/31/92 (E)	03/29/93 (A)
Occupancy	09/30/93 (E)	01/31/94 (E)

Senator Byrd: May I have your assurances that you will execute this project in a timely manner to assure that the timetable is followed and keep me informed of any developments relating to the project?

Mr. Higgins: Yes.

Senator Byrd: According to last year's budget justification, the relocation of the computer center will substantially improve operations in both the law enforcement and tax collection activities. The additional resources will be used to provide ADP services to the firearms programs in support of data collection and analysis systems used to support weapons tracing, explosives identification, and drug trafficking enforcement. How much is required to execute the project in a timely manner? Will sufficient funds be available to cover the cost of relocating the facility to the Eastern Panhandle of West Virginia, as indicated in the letter to me from Acting Director Black dated September 26, 1991? How much more funding, if any, would be needed in FY 1994, in order to facilitate the relocation of this facility on a timely basis as indicated in the latest milestone schedule?

Mr. Higgins: Sufficient funding has been made available in FY 1993 to execute this project in a timely manner. No additional funding will be required in FY 1994 in order to facilitate the relocation of the facility.

DOMESTIC TAXABLE WITHDRAWLS

Fiscal Year	Distilled Spirits in Proof Gallons (in millions)	Beer in Barrels 1/ (in millions)	Small Cigarettes (in billions)	Still Wine Under 14% Gallons (in millions)	Wine Naturally Carbonated Gallons (in millions)
1982	312	177	625	310	27
1983	306	178	588	314	32
1984	301	176	591	324	32
1985	306	175	579	365	31
1986	265	177	602	391	31
1987	271	178	577	399	30
1988	253	178	550	401	29
1989	251	179	536	360	27
1990	251	182	532	367	26
1991	242	183	510	350	24
1992	248	181	493	353	23

1/ Each barrel contains 31 gallons of beer.

QUESTIONS SUBMITTED BY SENATOR BOND

Senator Bond: There has been a growing problem with gangs in the country. ATF has taken the lead role in combating the gang problem. Could you give the committee an idea of the current situation?

Mr. Higgins: Gang presence and associated criminal activities continue to increase across the United States at an alarming rate. There are six main groups that have been identified and targeted by the ATF National Violent Gang Strategy: Jamaican posses, Crips and Bloods, outlaw motorcycle organizations, Asian street gangs, violent street gangs that are localized and unique to a specific geographic area, and prison gangs.

Gangs continue to spread to cities throughout the country. Criminal gangs of some type are already present in almost all the major cities/population centers in the United States. There is also a migration of gangs and their associated criminal activities, from cities to suburban communities the most prevalent of which is illegal drug dealing.

In Los Angeles alone, there are between 100,000 and 150,000 gang members. Gang membership is rising due to active recruitment and expansion of the illegal activities of gangs to cities across the United States. A number of regional street gangs have evolved nationwide as "clones" of the Los Angeles-based Crips and Bloods, naming themselves after streets, cross-streets, or neighborhood areas and wearing "colors" unique to their group. Gang membership has become a vehicle for profit and protection.

ATF continues to use aggressive law enforcement initiatives to combat gang-related crime. ATF currently has 595 special agents assigned to 234 violent gang task forces throughout the nation. In addition, ATF has established joint gang task forces with the Federal Bureau of Investigation in Atlanta, Baltimore, Dallas, and Washington, DC. ATF maintains and coordinates several gang data bases shared with other State and local law enforcement agencies. ATF annually sponsors national gang conferences. These conferences promote information sharing and networking among Federal, State, and local law enforcement on current trends and intelligence on gangs and gang-related violent crime.

The Bureau has also established a national toll-free hotline (800-ATF-GUNS), which has received wide media coverage, to encourage citizens to report the criminal use of firearms by gang members and other violent criminals.

Senator Bond: There seems to be a growing problem with youth in this country. Here in Washington, we see the wanton disregard for human life. Washington is not alone. The violence and mayhem continues to grow. What is Law Enforcement doing? Is this the right thing to do? Where do we go from here?

Mr. Higgins: Violent incidents involving juveniles have increased dramatically in the last decade. More and more, troubled youths are seeking the comfort, security, and peer approval that gang membership provides. Traditionally, the criminal justice system imposes less severe penalties on juvenile offenders. Although the prosecutorial burden of juveniles is addressed through the State system, ATF recognizes the importance of preventive programs.

ATF has joined forces with State and local officials in several innovative approaches to combating gang and violent crime problems through prevention. Through the Office of Juvenile Justice and Delinquency Prevention, the Department of Justice, and the Federal Law Enforcement Training Center, ATF participates in seminars in selected communities throughout the country to present leaders of those communities with a collaborative and cooperative interagency process that would lead to improved public and private gang and/or drug prevention intervention and suppression strategies.

Project Outreach is a Treasury Department initiative that ATF fully supports and participates in. It enables every ATF special agent to speak to students, civic groups, churches, and community leaders about drugs and crime. The emphasis is to change the public attitude about drugs and to encourage dialogue between the community and law enforcement.

Furthermore, the GREAT Program in Arizona, New Mexico, and Hawaii has been established with congressional funding to steer youths away from gang membership. The GREAT Program is committed to forming an enduring partnership between students, their families, and law enforcement. The program is intended to provide alternatives to gang activity and ways of solving problems without violence. Police officers, ATF agents, and community leaders work with the volunteers to increase the public's knowledge of crime and violence spawned by gangs.

Senator Bond: Gangs are involved at all levels of crime. Do the armed career criminal task forces (Achilles) deal with gangs?

Mr. Higgins: Yes. The Achilles National Violent Gang Strategy was developed because of the

dramatic increase in criminal activity attributed to violent gangs and the vulnerability of gang members to the Federal firearms and explosives laws. Four Achilles task forces were established in FY 1992 in the cities of Atlanta, Georgia; Charleston, South Carolina; Milwaukee, Wisconsin; and Portland, Oregon; whose primary enforcement efforts were to focus on street gangs. Their secondary goals were to focus on criminal organizations and other individuals that are responsible for violent crime in their targeted areas. All of ATF's Achilles task forces continue to address the entire spectrum of violent crime to include gang activity.

Senator Bond: ATF has placed considerable emphasis on the Achilles program. Could you give the committee a brief summary of the activities Achilles is currently interested in?

Mr. Higgins: The primary focus of the Achilles Program is the investigation of violations subjecting the criminals to the mandatory sentencing provisions of 18 U.S.C. sections 924(c) and (e). Investigations under this program may include gang members found in violation of these statutes.

Another objective of this firearms enforcement program is to increase State and local awareness of 18 U.S.C. § 924(e), which is aimed at maximizing the sentencing exposure of a person convicted of three or more violent felonies or serious drug offenses, and who has been convicted of possession of a firearm in violation of 18 U.S.C. § 922(g).

Furthermore, ATF's Violent Offender Program targets some of the most violent career criminals in the country. Pre-identified career criminals who meet certain criteria (e.g., if the offender has killed or injured the victim) are entered into NCIC. When these criminals are found in possession of a firearm, they are subject to mandatory minimum sentencing of 15 years without probation or parole.

In FY 1993, new guidelines were developed to redirect the focus of the Achilles Program to defined areas with measurable violent crime statistics. Several of these defined areas are designated "Weed and Seed" neighborhoods. Based on the new guidelines, each Achilles task force submitted a plan of operation that will be evaluated at the end of the fiscal year to measure the task forces' success in reducing violent crime. ATF is currently in the process of conducting a midyear assessment of these new guidelines.

Senator Bond: In your daily activities, ATF must deal at a State and Local level. How does this apply to Achilles? How about other ATF activities?

Mr. Higgins: The majority of our Achilles task forces are comprised of ATF agents and State and local law enforcement officers. In addition to our congressionally funded task forces, all of ATF's 23 field division offices also participate in the enforcement efforts of the Achilles Program. Some field divisions have developed formal and informal task forces on a city or regional basis in conjunction with State and local law enforcement agencies (e.g., Project Uptown in New York). ATF is mandated to provide support to Federal, State and local law enforcement officials in their fight against crime and violence, and the Achilles Program is a prime example of ATF's enforcement strategies tailored toward that end.

Such support is further illustrated by the firearms tracing services provided to authorized law enforcement agencies in the United States and foreign countries. ATF also participates with other Federal, State and local law enforcement agencies in such projects as the Office of National Drug Policy's Metropolitan Area Task Force and a joint firearms task force consisting of ATF special agents and New York Police Department officers. These are but a few examples of ATF's cooperation and working relationships with other Federal, State, and local law enforcement agencies.

Senator Bond: I am worried that the American people are losing confidence in law enforcement. I'm worried that the people will come to believe that crime and violence is out of control and that Government can't do much about it. I don't want that to happen. What can the average person do to assist law enforcement?

Mr. Higgins: Citizen cooperation is a primary asset in assistance to law enforcement. This has been noted on numerous occasions through calls received on the ATF hotline.

Additionally, citizen participation in community policing through such programs as the Department of Justice's Operation Weed and Seed, ATF's Project Outreach, and other community-based programs has proven to be beneficial in efforts to reclaim and revitalize neighborhoods that are being overrun by violent crime, drug trafficking, and gang activity. These and other community-based approaches are essential in fostering a sense of self-worth and individual responsibility among community members.

Senator Bond: What can the Government do that it is not doing?

Mr. Higgins: We need to recognize the need for prevention of crime as well as the enforcement of

criminal statutes. Speaking parochially, ATF has developed programs which address the needs of young people and provide alternatives to criminal participation (e.g., Project Outreach, GREAT). We believe that early intervention can reduce crimes that will occur in the future.

We must also be cognizant of new criminal groups and motivations for criminal activity. Historically, the drug culture and the illegal trafficking in drugs lead to the increase in illegal arms sales. New and more violent criminal groups emerge annually. The law enforcement community must be prepared to meet these challenges. This requires personnel and the continued training of these personnel to ensure the most effective operations. We must review our operations and devote our resources to those areas that have the greatest impact on criminal activity. We must also review advances in technology that allow law enforcement to maximize its effectiveness in an era of constrained resources.

Senator Bond: I would like to now turn to the Regulatory side of the business. The President's economic package calls for establishment of a user fee. Could you describe what that fee will cover?

Mr. Higgins: User fees would be collected for processing applications for Certificates of Label Approval (COLA) for alcoholic beverages and for reviews of formulas (and statements of process) and laboratory tests and analyses performed under the authority of the Federal Alcohol Administration Act and the Internal Revenue Code.

Formulas or statements of process are required to be submitted for alcoholic beverages that are produced other than by fermentation or distillation (e.g., cordials and liqueurs). Laboratory tests or analyses are required for imported alcoholic beverages that would be subject to the formula requirement if domestically produced. Formulas and submission of samples for testing are also required for nonbeverage products manufactured with alcohol subject to drawback under 26 U.S.C. 5134 and for some uses of specially denatured alcohol.

Senator Bond: Where does this fee go?

Mr. Higgins: The fees proposed cover items subject to regulation or approval under our Alcohol program. Up to $5 million of collections under the proposed fees will be used as offsetting receipts to cover costs of the ATF Alcohol compliance program.

Senator Bond: What is the impact on ATF?

Mr. Higgins: Assuming enactment, ATF will have 90 days to implement the program. We are actively working on contingency plans to begin collection of the fees within that deadline.

Senator Bond: This proposal was made in the past, but was not enacted. What happens if this scenario exists again?

Mr. Higgins: As long as any reduction in our appropriations in anticipation of the offsetting collection is contingent on enactment of the fee provision, that would be no problem.

Senator Bond: ATF regulates alcohol, firearms and explosives. You also collect alcohol, tobacco and firearms taxes. Our tax system is one of voluntary compliance, however, we know that taxes are not always voluntarily submitted. How does ATF go about these tasks?

Mr. Higgins: With respect to alcohol, tobacco, firearms and explosives, our approach is to utilize a mix of field inspection, office audit, and informational and educational initiatives to maintain a high level of compliance.

Senator Bond: How many people are assigned to these tasks?

Mr. Higgins: In fiscal year 1993 we are authorized 1,360 FTE positions for compliance activities. For fiscal 1994, that number is reduced to 1,341.

Senator Bond: Are these numbers adequate?

Mr. Higgins: In these times of constricting budgets, we will strive to achieve the maximum impact with what we have.

Senator Bond: Is there another way to do this type of Regulatory work?

Mr. Higgins: Considering the type of issues and the industries concerned in our compliance missions, the functions involved for the most part are inherently governmental in nature, such as collecting taxes and enforcing other laws that may involve imposition of penalties or denial of some privilege. Public safety is implicated in our explosives compliance program. Given those mission elements, I do not see another way to do it.

Senator Bond: We discussed voluntary compliance earlier. Could you give the Committee an idea of the level of compliance, as well as, efforts you

undertake to insure voluntary compliance is an appropriate collection mechanism?

Mr. Higgins: Compliance is achieved through several mechanisms. Most importantly, our active inspection program provides a deterrent by reminding taxpayers that their operations and returns are subject to audit.

In addition, ATF employees take responsibility to serve the public by providing information, guidance and assistance to taxpayers who telephone, write or visit an ATF office inquiring about their tax obligations. Emphasis is made to ensure prompt, accurate and responsive replies to these taxpayers or potential taxpayer inquiries. By maintaining good taxpayer relations, ATF feels that taxpayers may be more willing to comply with ATF tax laws.

Other mechanisms include providing articles to trade journals and organizations, as well as radio and television stations, concerning issues such as payment of special occupational tax (SOT) by retailers, wholesalers and producers. ATF participates in trade shows and is often included in industry seminars. When the need arises, ATF conducts seminars for issues that are of concern to the industry, or to clarify regulations, policy or procedures.

The level of compliance varies by type of tax. For instance, ATF is approaching 100 percent compliance for alcohol and tobacco excise taxes. For Tax-Year 1992, SOT was estimated at 82 percent compliance, and in 1991 the percentage for floor stocks tax (FST) was estimated at 80 percent compliance.

Senator Bond: Collection of excise taxes have continued to rise over the past few years. It is often reported in the popular press that consumption of spirits and tobacco products have peaked and have begun to subside, so I would assume that the most recent tax increase has led to this growth. Would this be a fair assumption?

Mr. Higgins: Most of the growth in excise tax collections in the past few years can be attributed to an increase in the excise tax rate. However, the industry has experienced growth in some commodities. The trend over the past 10 years has been that beer and table wine (still wine, under 14 percent alcohol) have gone up, while distilled spirits, naturally carbonated wine and cigarettes have dropped. During the 10 year period there have been fluctuations in the commodities due to various factors, such as the rise and fall of popularity of products. Refer to the attached chart entitled "Domestic Taxable Withdrawals".

Senator Bond: There is also talk that "sin taxes" will be increased to help offset the cost of the President's Health Care plan. Speculation has it that one dollar a pack on cigarettes would be the target figure. I would assume a like amount on beer, wine and alcoholic beverages could also be contemplated. Could you give the committee an idea of what your organization could anticipate as a result of an increase of this magnitude?

Mr. Higgins: An increase of cigarette excise taxes of $1 per package would generate approximately $20 billion in new revenue annually at current volume. Some published articles speculate that an increase in tax rates will result in some reduced cigarette consumption, thereby reducing the amount of collections. Other publications contend that cigarettes are unlike other commodities, and that an increase in tax will not diminish consumption.

To date, the collection of Federal excise taxes on cigarettes has been a relatively straightforward process. The excise tax is collected at the factory level, or upon release from Customs custody. We have seen only limited attempts to evade or avoid the current tax. We believe that this is due to an effective revenue protection program, and to the relatively low Federal excise tax rate on cigarettes. We believe that the cigarette tax increase currently under consideration will place new demands on the Bureau's revenue collection program. Specifically, we expect large scale attempts to avoid the excise tax through smuggling, and through diversion of tobacco products from the export market. We also anticipate that producers and importers will seek innovative, legitimate ways to reduce their tax burden.

During recent years, the Canadian national government and the provinces within Canada began raising excise tax rates on cigarettes. The result of these tax increases has been twofold: (1) a large increase in tax revenues, and (2) a large increase in cigarette smuggling. Evasion of excise tax is a serious problem for Canada. It has been estimated that Canada loses over $500 million in cigarette tax revenue annually to smuggling. It has also been estimated that one out of every nine packs of cigarettes consumed in Canada was smuggled into the country.

Initially, we expect that an increase in cigarette taxes would be accompanied by one or more floor stocks taxes (FST). These taxes would impose a tax on inventories of cigarettes that would bring the level of taxation on existing stocks to that of newly produced or imported cigarettes. Such taxes would both generate revenue and discourage increasing

inventories to delay the impact of the new, higher taxes. In 1991, an increase in cigarette excise tax from $8 per thousand to $10 per thousand (or 4 cents per pack) resulted in tobacco FST collections of $150 million. If similar inventories of cigarettes exist at the time of the tax increase, the FST liability could be several billion dollars. Such an unprecedented tax on a relatively unregulated industry group raises a concern that some industry members will make efforts to avoid the tax. Because retailers and wholesalers of cigarettes are not regulated by ATF, collection of FST would rely on our existing database of previous taxpayers, as updated by more current sources of information. We believe we have effectively administered the collection of FST resulting from past tax increases. However, there are a number of methods that could be employed to evade the FST, resulting in significant revenue loss. ATF is preparing for these situations, and expects that attempts to evade the FST will occur. Monitoring the tax increase, administering the FST program and conducting post audits of taxpayers will be resource-intensive.

Compliance Operations greatest concerns center around smuggling cigarettes into the U.S. without payment of tax, and diversion of non-taxpaid cigarettes from the export market. ATF is currently working with the Canadian government in an attempt to stem the smuggling that country is experiencing. In doing so, we have determined that the U.S. is also vulnerable to smuggling and diversion schemes. Also, we are aware that organized crime is involved in these activities.

Many of the problems of smuggling and diversion center around Indian reservations. The unique status of these reservations and the sensitive social issues associated with tax enforcement on reservations will continue to present difficulties for effective tax administration.

We also anticipate that manufacturers and importers will seek alternative products to maintain market share while avoiding cigarette tax increases. Among the probable innovations will be reformulation of small cigars to products that will more closely resemble cigarettes. At present, small cigars are taxed at about 1/10th the cigarette tax rate. We also anticipate marketing of roll-your-own kits, as are popular in European countries. Presently, there is no tax on roll-your-own tobacco.

With an alcohol tax that favors one product (distilled spirits, wine, or beer), ATF will see innovative attempts, as we do now in the malt beverage industry, to create new products created from the alcohol of the "least" taxed product. This

will require increased monitoring by ATF to protect both the revenue and the consumer.

Senator Bond: I have been informed by a constituent that agents of the BATF contacted city officials of the City of Florissant and requested to meet with those officials concerning persons with federal firearms licenses. At that meeting -- which I understand lasted several hours -- the BATF agents informed the city officials there were numerous federally licensed persons in the city who did not have city business licenses. The BATF agent urged the city officials to send letters to all the federal licensees requesting them to obtain city business licenses or to surrender their federal licenses.

I would like to know the BATF's explanation of this matter. Your explanation should include who initiated the meeting and who authorized the BATF agents to attend. Also, please inform me how many man hours were involved in organizing and conducting this meeting.

Mr. Higgins: On March 23, 1993, a meeting was held between 2 inspectors from the Bureau of Alcohol, Tobacco and Firearms (ATF) and city officials of Florissant, Missouri. The following is a synopsis of that meeting:

> The meeting was initiated by ATF and authorized by the Regional Director, Compliance Operations, Southwest Region. The meeting lasted for approximately 1 hour. About 3-5 staff hours were expended in organizing and conducting this meeting.
>
> The purpose of the meeting was to establish a close working relationship with city officials relative to firearms regulatory matters. ATF is responsible for enforcement of the Gun Control Act of 1968 (GCA), including its licensing provisions for firearms dealers. This includes establishing the applicant's intent to engage in the business of buying and selling firearms, in addition to ensuring the applicant is fully informed of their responsibilities under the GCA. Part of ATF's enforcement mission, as stated in the preamble of the GCA, is to provide support to State and local officials. Applications for FFLs cannot be denied on the basis of non-compliance with State or local laws. Consistent with the stated objectives of the GCA, ATF does make referrals to the appropriate local authorities when it appears that an applicant may operate in violation of State or local laws or ordinances.

ATF informs new applicants of the above policy and by so doing alerts them to the need to comply with State and local requirements. This is better for the prospective licensee than having them go to the time, trouble and expense of trying to establish a business only to have local authorities shut it down.

At the request of Florissant city officials, ATF provided them with the name, address and license number of all Federally licensed firearms dealers within their jurisdiction.

ATF did not ask the city of Florissant to send letters to firearms licensees in their jurisdiction requesting them to obtain city business licenses or to surrender their Federal firearms licenses.

As a result of this meeting a mutually beneficial relationship has been established with your constituent city of Florissant, Missouri.

Senator Bond: I would also like to know, for fiscal year 1993, how many such meetings have been conducted in the United States and the total number of man hours involved in those meetings. In addition, how many other contacts have there been with state and local officials concerning compliance by federal firearms licensees with state and local business license and zoning laws. How many man hours have been involved in those contacts?

Mr. Higgins: Thus far in fiscal year 1993, approximately 513 meetings have been held, and 2,214 other contacts (telephonic, written, and referrals of information) have been made with State/local officials relative to firearms regulatory matters. There has been roughly 516 Managerial staff hours and 1,863 Inspector staff hours expended in organizing and conducting these meetings and/or other contacts.

All hours expended by managerial personnel in this endeavor is time that has been allocated for public relations and liaison contacts with other agencies. These expenditures will not have an adverse effect on resources available for implementing other Bureau programs or conducting field inspections.

Senator Bond: Finally, please indicate the statutory basis for the BATF's involvement in the administration and enforcement of state and local business license and zoning laws.

Mr. Higgins: In response to your inquiry as to ATF's statutory authority for contacting State and local agencies, it should be clarified that ATF does

not administer or enforce State or local business license and/or zoning laws. The purpose of the Gun Control Act of 1968, as stated in the preamble to the Act, is to provide support to Federal, State, and local authorities with respect to firearms. The various meetings and contacts in question are simply an example of the many working relationships that ATF maintains with various Federal, State, and local agencies throughout the country.

QUESTIONS SUBMITTED BY SENATOR D'AMATO

Senator D'Amato: On February 26th of this year, terrorists detonated a huge bomb in the parking garage under the World Trade Center in Manhattan. One expert said that if the bomb had been 500 pounds larger or just better placed, it could have caused one of those buildings to collapse. If that had happened, thousands of innocent people could have been killed.

I am concerned about the ease with which the terrorists built this huge bomb. I want to know what we can do to stop others from building such bombs. I want to ask you a few questions about the current state of federal law and terrorist bomb construction.

Please understand that I am not asking you about the World Trade Center investigation or for any confidential information from that investigation. You should frame your answers accordingly. Do you believe that current federal law is sufficient to deal with terrorist bombers who kill many people with very large bombs?

Mr. Higgins: Yes, laws are in place that lend support to Federal, State, and local law enforcement in their efforts against those who use explosives to perpetrate crime and violence.

Senator D'Amato: Would a federal death penalty that would pass constitutional review help?

Mr. Higgins: We would ask the Justice Department to review this matter.

Senator D'Amato: What can be done to deter or hinder the use of "boosters" with home-made bombs--boosters like cylinders of compressed acetylene, propane, hydrogen, or other gases that work to increase the destructive power of the bomb? Should all such sales be registered?

Mr. Higgins: Unfortunately, law enforcement cannot limit access to everyday materials used for

legitimate purposes. The extremely limited protection that would be afforded by a registration requirement for hydrogen gas and the like would be far outweighed by the economic and social costs of burdening society with undue regulation. One example is the use of propane tanks for gas grills. Requiring millions of these tanks to be registered, at a tremendous cost, would be futile given the relative accessibility of such tanks in any suburban neighborhood.

Senator D'Amato: If a timer is made to detonate a bomb, can or should possession of such a timer be made a separate federal offense?

Mr. Higgins: Timers used to detonate a bomb can be anything from a wristwatch to an egg timer. The effectiveness of a separate Federal offense for the possession of such items is questionable unless a distinction can be made specifically for timers used to detonate a bomb.

Senator D'Amato: If the timer alone is found in a suspect's possession, would that be sufficient for federal prosecution under current law?

Mr. Higgins: The existing statutes contain adequate attempt and conspiracy clauses. With thorough investigative efforts, those who plan to perpetrate criminal bombings can be successfully prosecuted.

Senator D'Amato: Do you have any explanation for the fact that the total number of bombing and incendiary incidents in the United States has been increasing, and at a more rapid rate every year, since calendar year 1987?

[Annual totals are as follows: 1987, 848; 1988, 977; 1989, 1,208; 1990, 1,582; 1991, 2,499.]

Mr. Higgins: Explosives-related violence across the United States has prompted a more active exchange of information and expertise between Federal, State, and local law enforcement. This exchange, which has been promoted through enhanced training programs and affiliations with professional organizations, has resulted in better reporting of the explosives incidents that occur. Therefore, this could account for the increase in the official number of incidents.

Senator D'Amato: I have some questions I would like answered for the record, and they are as follows: How many persons were convicted of federal firearms, arson, or explosives violations in each of calendar years 1991 and 1992? How many of those convicted were illegal aliens?

How many of those convicted were aliens other than legally admitted permanent resident aliens? How many of those convicted were aliens initially admitted to the United States after claiming political asylum?

Mr. Higgins: During calendar years 1991 and 1992, ATF violations have resulted in the following convictions:

	1991	1992
Program:		
Explosives	278	231
Firearms	5,182	6,175
Arson	155	221
Total:	5,615	6,627

We are unable to provide statistics on how many of these convictions were of illegal aliens or other types of aliens. However, since October 1, 1991, ATF has tracked the total number of noncitizens the Bureau has arrested. In 1992, the total number of noncitizens arrested by program was as follows:

	1992
Program:	
Explosives	14
Firearms	901
Arson	18

Senator D'Amato: I understand that you do not presently keep statistics on the number of illegal aliens and the number of aliens admitted seeking political asylum who are convicted of violating federal statutes concerning firearms, explosives, or incendiaries that BATF is responsible for enforcing. Will you start keeping such statistics?

Mr. Higgins: Most ATF investigations conducted on illegal aliens and aliens who are seeking political asylum are coordinated with the Immigration and Naturalization Service (INS). ATF has worked closely with INS on many of these investigations. We do not track these specific categories of illegal aliens and aliens seeking political asylum. Many of those found in violation of these laws are deported by INS.

SUBCOMMITTEE RECESS

Senator DECONCINI. The subcommittee will stand in recess until 10 a.m., April 20, when we will take testimony on the Federal Law Enforcement Training Center and Financial Crimes Enforcement Network.

[Whereupon, at 12:09 p.m., Friday, April 2, the subcommittee was recessed, to reconvene at 10:05 a.m., Tuesday, April 20.]

TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1994

TUESDAY, APRIL 20, 1993

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:05 a.m., in room SD–116, Dirksen Senate Office Building, Hon. Dennis DeConcini (chairman) presiding.

Present: Senators DeConcini and Bond.

DEPARTMENT OF THE TREASURY

FEDERAL LAW ENFORCEMENT TRAINING CENTER

STATEMENT OF CHARLES F. RINKEVICH, DIRECTOR

ACCOMPANIED BY:

JOSHUA L. STEINER, SPECIAL ASSISTANT TO THE DEPUTY SECRETARY OF THE TREASURY

JOHN P. SIMPSON, DEPUTY ASSISTANT SECRETARY, REGULATORY, TARIFF, AND TRADE ENFORCEMENT

R.J. MILLER, DEPUTY DIRECTOR

JOHN C. DOOHER, ASSOCIATE DIRECTOR

KENNETH A. HALL, DIRECTOR, OFFICE OF ADMINISTRATION

J. DENNIS STATON, COMPTROLLER

OPENING REMARKS

Senator DECONCINI. The Subcommittee on Treasury, Postal Service, and General Government will come to order.

Today the subcommittee will be taking testimony from representatives of the Federal Law Enforcement Training Center and the Financial Crimes Enforcement Network. We will begin this morning's hearing with the Federal Law Enforcement Training Center. Testifying on behalf of the Center are Charles F. Rinkevich, Director; R.J. Miller, Deputy Director; John C. Dooher, Associate Director; Kenneth A. Hall, Director, Office of Administration; J. Dennis Staton, Comptroller; and Joshua Steiner, Special Assistant to the Deputy Secretary.

The fiscal year 1994 budget for the Federal Law Enforcement Training Center totals $53.907 million and 459 FTE's. This amount represents a reduction of $5.552 million and 12 FTE's from the fiscal year 1993 enacted level. In addition, your proposed budget in-

cludes no funding to support master plan facility construction projects.

Director Rinkevich, I have serious concerns about your fiscal year 1994 budget and the effect it will have on consolidated law enforcement training. I have a number of questions I will ask you on this subject.

I am advised by the ranking member, Mr. Bond, that he will not be here for all the testimony this morning due to a caucus meeting. He has asked me to go ahead and submit his questions, which I will do, and proceed with the hearing.

Please summarize your statement and we will pursue some questions.

FLETC INTRODUCTION

Mr. RINKEVICH. Mr. Chairman, thank you very much. With your permission, I will ask that my full statement be introduced for the record and just make a couple of summary comments about the budget submission.

As you indicated, our request is $53.907 million. When you add the reimbursables that FLETC expects to receive from the agencies for the training the total will be something slightly in excess of $74 million.

Also, as you know, we are the principal law enforcement training organization for most of the Federal law enforcement. We now have 71 different agencies that train at the Federal Law Enforcement Training Center. Because of the consolidated nature of our operations, we estimate that on an annual basis we save the Government about $100 million.

We operate three sites. Glynco is our headquarters and Marana, AZ, about to be Davis-Monthan, is the western site, as well as our site in Artesia, NM. The Artesia site, of course, is owned by the Government.

MARANA FACILITY

Mr. Chairman, I would like to talk about what is going on at Marana because that is important to us and I know you're interested in it. We have been at Marana since 1984. The last several years we have had a very unsatisfactory arrangement with the firm from which we lease the space. Our lease is due to terminate at the end of fiscal year 1994. We have an option to terminate it also at the end of this fiscal year.

DAVIS-MONTHAN FACILITY

Because of the increased costs we have had to absorb at Marana, we have explored, at this committee's urging, the possibility for remaining in the Tucson area, but doing our training at a different site. We have identified Davis-Monthan Air Force Base. In fact, we have begun the preliminary arrangements with the Air Force to relocate most of our training to Davis-Monthan. I can tell you that at this point the receptivity of the Air Force, the city of Tucson, and your office has been extremely positive and has allowed us to move forward with the arrangement of Davis-Monthan in a most expeditious way.

We estimate that we will save $1.7 million at Davis-Monthan over similar costs at Marana. So we are very excited about that possibility and very pleased with the kind of cooperation that we have gotten out of the folks at Tucson.

Senator DECONCINI. Can you give us what you think the time schedule is?

Mr. RINKEVICH. We anticipate leaving Marana by the end of this fiscal year and hope to have full operations in place at Davis-Monthan by June or July. We are now doing some training at Davis-Monthan. We are doing some Immigration Service training there because of their special needs which we could not otherwise accommodate. So we actually are at this very moment in the process of doing some training at Davis-Monthan. We look to be fully out of Marana by the end of this fiscal year.

FIREARMS TRAINING

I should mention, Mr. Chairman, in terms of the Marana facility, that we also will have some residual costs. We don't know exactly what those will be, but we are looking carefully at them in terms of environmental cleanup when we leave Marana. As you know, we conducted firearms training there. Whenever you introduce lead into the environment, there is a cost associated with removing it. Our lawyers and engineering people are looking at it to see what that cost is going to be because we certainly don't want to leave behind us any kind of environmental problem.

Senator DECONCINI. Is that a liability of FLETC?

Mr. RINKEVICH. Yes, it is, Mr. Chairman. That would be a legal liability for us not to tend to that when we left. Now it is a question of the best way to do that and the cost associated with that.

DORMITORIES AT DAVIS-MONTHAN

Senator DECONCINI. What will you do about dormitories at Davis-Monthan?

Mr. RINKEVICH. Mr. Chairman, we are now using as first option Air Force housing. The Air Force has been extremely cooperative in making those arrangements. If Air Force housing is not available, then we are prepared—and they are as well—to allow us to ride contracts that they have with commercial hotels in the vicinity. Apparently, they have a similar problem there as we have had at Glynco where they don't always have housing on the base for all their folks and have made arrangements with local hotels.

Senator DECONCINI. You think they are supplying some housing now?

Mr. RINKEVICH. Yes, sir; they are in fact supplying housing for the training that we are doing now for Immigration Service.

Senator DECONCINI. And you pay them for that?

Mr. RINKEVICH. Yes, Mr. Chairman; but at much less cost than we did at Marana.

Senator DECONCINI. How many students?

Mr. RINKEVICH. I am not sure of our population there today.

Mr. MILLER. There are two classes going at this time and about 40 students in each class.

BUREAU OF INDIAN AFFAIRS TRAINING

Senator DECONCINI. What about the BIA? Are they coming back to Arizona? Will they be able to be attracted back to Davis-Monthan?

Mr. RINKEVICH. As you know from past conversations on this, BIA had been at Marana. In fact, the reason that we went to Marana was to accommodate their needs.

The basic training that BIA does or that we do with BIA has moved to Artesia. The principal reason for that is that there is a particular problem associated with the housing of the BIA students. We believe they made the right decision when they said that they need to be able to house those folks, because they are basic trainees, in a more closely supervised environment.

So without that guarantee at Davis-Monthan, part of the reason for them relocating to Artesia related to that.

If there were housing that we could guarantee them, I think BIA would consider moving back. But, essentially, the decision to go was a BIA decision. We had no reason or cause to argue with that decision.

STUDENT COSTS

Senator DECONCINI. Do you have any comparisons of what the costs will be per student?

Mr. RINKEVICH. Those are in my statement, Mr. Chairman.

STUDENT TRAINING AT MARANA

Senator DECONCINI. The last question on this subject matter—and then you may continue your statement—in fiscal year 1993 the conferees provided an increase of $498,000 associated with operating subsidies needed to support student training at Marana. If that training ends the end of this fiscal year, will there be a need for these funds? And if so, for what purpose?

Mr. RINKEVICH. There would not be a need for those subsidy funds in the future. Those subsidy funds that are still available this year—and there are some, but I am not sure of the amount—we intend to use to make the transition from Marana to Davis-Monthan.

Senator DECONCINI. So for fiscal year 1994 you would not need those funds?

Mr. RINKEVICH. That is correct, Mr. Chairman.

Senator DECONCINI. Thank you. Please proceed.

MASTER PLAN

Mr. RINKEVICH. The next point I wanted to briefly cover was our facilities master plan that you mentioned in your opening comments, Mr. Chairman. At this point our updated master plan for the Center calls for the expenditure of slightly in excess of $111 million. During this current fiscal year, the Congress has appropriated slightly in excess of $58 million. So we have about 52 percent of the funds already appropriated to fully implement the master plan.

This committee has been extremely supportive of the Center's need for that purpose. I want to express to you my personal appreciation for it. We have, with your permission, sir, a short video that I would like to let you see. It gives you a fix on the progress of the construction and gives you a little bit of a glimpse of other Center activities. It is a short video of only about 6 or 7 minutes.

HOUSING AT DAVIS-MONTHAN

Senator DECONCINI. Before you do that, I do have one other question on Marana.

Have you discussed plans with Davis-Monthan for permanent housing on the base?

Mr. RINKEVICH. Yes; we have.

Senator DECONCINI. Is that a possibility?

Mr. RINKEVICH. That is a possibility. Whether that housing would be housing provided with already existing structures is another question. They are going through a state of transition. I think they anticipate other agencies moving in there as other military installations close. At this point, they are not able to give us a guarantee—and understandably so—in terms of housing. They are able to give us a guarantee in terms of space for our facility. Initially, we are going to be using about 10 modular buildings.

The Davis-Monthan folks really expect that if we stay there in the long term we would be looking at permanent construction or permanent buildings that they would have available. They just cannot tell us what buildings they are going to have available because of the flux.

Senator DECONCINI. And you're not talking about your building any there?

Mr. RINKEVICH. At this point, no, sir.

Senator DECONCINI. Thank you.

[Video presentation.]

Mr. RINKEVICH. That completes the summary of my testimony. My colleagues and I would be very pleased to answer any further questions you may have.

PREPARED STATEMENTS

Senator DECONCINI. Thank you, Director. We have your prepared statement and a statement from John P. Simpson, Deputy Assistant Secretary with the Federal Law Enforcement Training Center. Both statements will be made part of the record.

[The statements follow:]

STATEMENT OF CHARLES F. RINKEVICH

Mr. Chairman and members of the Subcommittee, I am pleased to be here today to report on the current operations and performance of the Federal Law Enforcement Training Center (FLETC).

At this time, I would like to introduce the representatives of the Center who have accompanied me: R.J. Miller, Deputy Director; John C. Dooher, Associate Director; Kenneth A. Hall, Director, Office of Administration; William M. Allen, Deputy Director, Office of Administration; Earl L. Housenfluck, Deputy Director, Washington Office; Stephen M. Bodolay, Chief Counsel; J. Dennis Staton, Comptroller; David S. Collins, Budget Officer; and Kenneth V. Scally, Project Analyst.

Today, I am prepared to discuss our request as outlined in the President's Budget submitted on April 8, 1993. The Center's fiscal year 1994 request is for a Salaries & Expenses (S&E) appropriation of $47,195,000; an increase of $37,000 over the fis-

cal year 1993 enacted level. Our request for Acquisition, Construction, Improvements and Related Expenses (ACI&RE) is $6,712,000; a decrease of $10,589,000 from the fiscal year 1993 funding level. Coupled with $20,318,000 in funds to be reimbursed to us by our participating agencies for training related services, our total budget request for fiscal year 1994 is $74,225,000.

OVERVIEW OF OPERATIONS

As you know, the Center's mission is to conduct basic and advanced training for the majority of the Federal Government's law enforcement personnel. We also provide training for State and local law enforcement in specialized areas and support the training provided by our participating agencies that is specific to their needs. Currently 71 Federal agencies participate in more than 200 different programs at the Center. There are entry level programs in basic law enforcement for police officers and criminal investigators along with advanced training programs in areas such as marine law enforcement, anti-terrorism, financial and computer fraud and white-collar crime. Our training is generally conducted at either the main training center in Glynco, Georgia, or one of our two satellite training centers. One of the two satellite training centers is located in Artesia, New Mexico. The other satellite center is a leased facility at Marana, Arizona. Additionally some advanced training, particularly that for State and local law enforcement, is also conducted on a regional basis to make it cost efficient for our State and local clients. However, a report recently submitted to this Committee by the FLETC recommends relocating the training conducted at Marana to Artesia, New Mexico and Davis-Monthan Air Force Base, outside Tucson, Arizona. I will discuss the reason behind that recommendation more fully later.

Throughout the years, the FLETC has become known as an organization that provides high quality and cost effective training with a "can do" attitude and state-of-the-art programs and facilities. During my ten year association with the Center, I have seen first-hand the many advantages of consolidated training for Federal law enforcement personnel, not the least of which is an enormous cost savings to the Government. Consolidated training avoids the duplication of overhead costs that would be incurred by the operation of multiple agency training sites. Furthermore, because of consolidated training we estimate the Government will avoid $103.9 million in per diem costs alone. This estimate is based on the Center's projected fiscal year 1994 workload and per diem rates in Washington and other major cities of $144.00/day versus the cost of housing, feeding and agency miscellaneous per diem for a student at Glynco of $25.00/day. Consolidation also ensures consistent, high quality training and fosters interagency cooperation and camaraderie. Students from the different agencies commingle, thus learning about each other and each other's professional responsibilities. The networks established at the Center last throughout their careers.

STEWARDSHIP OF CONSOLIDATED TRAINING

However, the relationship between FLETC and its participating agencies is a fragile one. The FLETC is essentially a voluntary association with each agency's participation governed by a Memorandum of Understanding, and bolstered by the commitment of the participating agencies, the Department of the Treasury and the Congress. Particularly in these times of severe budget constraints, a single agency cannot afford the sophisticated facilities and staff which are required for the state-of-the-art training necessary to adequately prepare our nation's law enforcement personnel. Only by consolidation at a centralized location are programs and facilities like those at the FLETC economically feasible. In the past, Congress has expressed its serious concern over the potential proliferation of individual agency training academies and the resulting deleterious effect it would have on the quality and cost of training. We take very seriously our stewardship of the concept of consolidated training and look forward to the Administration and the Congress continuing to encourage, nurture and support the concept of consolidated training at the FLETC.

WORKLOAD

The FLETC's workload has grown tremendously over the last few years. During fiscal year 1992 the Center graduated 26,852 students, representing 85,130 student-weeks of training. Our April 1992 projections from our participating agencies indicated that during fiscal year 1993 we would train a total of 35,751 students representing 126,535 student-weeks of training and in fiscal year 1994 we would train 37,468 students representing 122,038 student weeks. However, at this time, it is too

early to accurately forecast the Center's actual workload for fiscal year 1993 and 1994. We expect actual workload will not meet the April 1992 projections.

FOREIGN TRAINING

In addition to training Federal and State and local law enforcement officers, the FLETC provides training assistance to friendly foreign governments in a variety of ways. These include operational briefings, technical assistance and hands on training programs. Since 1984, the amount of training assistance to foreign governments has increased due to world-wide tensions and international crime.

Under sponsorship of the Department of State's Office of Counter-Terrorism the FLETC has provided training and briefings to more than 1,000 foreign officers over the last several years. Recent examples of this training involve crime scene investigation and case management programs delivered to Polish, Greek and Hungarian police officials. However, the bulk of the training provided to foreign police has been in anti-terrorism measures.

At the request of other U.S. Government agencies, such as the United States Information Agency, the Agency for International Development and the Department of Justice, the FLETC has provided other nations with training assistance over the years. Examples include court security measures for Salvadoran police, basic police training for Panamanian police officers following the restructuring of the Government of Panama, firearms instructor training of Hong Kong police officers and computer training for foreign government drug intelligence analysts from several Caribbean nations. At the request of the Secretary of the Treasury, and under its own authority to provide international training on a reimbursable basis, the FLETC, in cooperation with the U.S. Customs Service and the Internal Revenue Service, provided a money laundering training program for Mexican Government officials.

During fiscal year 1992 the Center trained 304 foreign students, representing 661 student-weeks of training. During fiscal year 1993 the Center expects to train 316 foreign students representing 768 student-weeks of training. Although the majority of the training done was at the request and under the sponsorship of the U.S. State Department, the Center stands by and has the capability to assist other agencies in meeting critical foreign training needs, particularly for the new governments in the former eastern block countries.

FACILITIES MASTER PLAN AND ACQUISITION, CONSTRUCTION, IMPROVEMENTS AND RELATED EXPENSES ACCOUNT (ACI&RE)

If I may, Mr. Chairman, I would now like to brief the Committee on the FLETC's Facilities Master Plan before discussing the specifics of the FLETC's ACI&RE request. Although we are not requesting funding for Master Plan projects in fiscal year 1994, I feel it is important to review the history of the Master Plan and update this Committee on the progress being made on those Master Plan projects previously funded by the Congress.

In the past decade the Center has experienced enormous growth in the training demanded by its participating agencies. We have been able to accommodate much but not all of these increased training needs by undertaking extraordinary measures. Regrettably, some of those training needs, particularly advanced training, have been deferred. In order to accommodate the increases, the Center has been required to temporarily expand its capacity for housing, dining, classroom, office space, storage, and special training facilities over the last five years using temporary buildings and contracted facilities. Many of the temporary measures taken are costly and adversely impact on the Center's operations. For example, during fiscal year 1992 the Center housed 7,206 students in local hotels because rooms were not available on Center. The additional costs incurred by the Government for the off-Center housing was $545,000. Similar expense for off-Center housing is expected to be incurred in fiscal year 1993. When we are forced to house students off-Center, we not only incur additional cost, but the students' access to essential facilities such as the library, physical training complex and the dining hall is limited, thus denying them the full benefit of the FLETC training experience.

Another example of the impact of temporary facilities on Center operations is the conversion of former visitor instructor housing into office space for our training staff. Such housing is much less expensive than commercial lodging. These individual units will accommodate only four or five staff offices and are distant from the classroom and other staff training offices. Because of this, normal communication and the sharing/discussion of new ideas which takes place among the instructional staff are adversely affected. The dispersal of staff away from centralized locations also impacts on our janitorial and on-Center mail/messenger costs. And, of course,

since these units are no longer able to house visiting faculty, the Government incurs additional commercial lodging costs.

In its fiscal year 1988 appropriations, the Center was authorized $200,000 to be used for the development of a Facilities Master Plan. The Master Plan, presented to Congress in June 1989, provided a basis for the efficient and orderly development of the Center's land and facilities resources. It was and is a comprehensive blueprint to guide the expansion of the Center so that it can more effectively support the present training workload as well as the workload projected for the future. The original plan requested a total of $86,010,000: $82,000,000 for Glynco; $3,000,000 for Artesia; and $1,010,000 for Marana.

The original Master Plan was updated, and a copy was provided to the Congress in September 1992. The Master Plan update refined earlier estimates and incorporated changes necessary to meet the evolving training needs of our participating agencies. The current estimate to completely implement the Master Plan is $111,296,000. Through fiscal year 1993, Congress has appropriated $58,111,000 or, about 52 percent of the funds needed for the Master Plan.

Of the $58,111,000 already appropriated by Congress for Master Plan improvements, $51,946,000 was for Glynco projects; $5,865,000 was for Artesia projects and $300,000 was for Marana projects. The Center's fiscal year 1993 appropriation for the Master Plan was $10,765,000, including $5,000,000 from the Office of National Drug Control Policy's Special Asset Forfeiture Fund.

I am pleased to report that progress on implementing the Master Plan is now readily apparent. For example, a physical training complex at our Artesia facility was completed in October 1991. Additionally, ground was broken at Glynco on a new dormitory in early October 1991. This project, was completed earlier this month. Ground was also broken during fiscal year 1992 on the indoor firearms range expansion, two outdoor firearms ranges, the physical techniques consolidation/expansion and the cafeteria expansion. The total value-of the above projects is $25,061,000 and construction on those projects begun in fiscal year 1992 will be completed during fiscal year 1993 and fiscal year 1994. Additionally, many of the smaller projects at our Artesia facility have been completed.

The Center's fiscal year 1994 ACI&RE request is in the amount Of $6,712,000. Our request includes $4,166,000 for facilities construction and maintenance and $2,546,000 for the environmental restoration/reconstruction of the outdoor firearms ranges. This funding will provide the necessary resources to maintain our present facilities and ensure that we have the flexibility to meet the changing training requirements of our customers. It also allows us to continue with the environmental restoration/reconstruction of our outdoor firearms ranges which I will discuss in more detail later.

Mr. Chairman, I want to thank you and members of the Subcommittee for the support given the Center in its Master Plan development and implementation. We are pleased and grateful that Congress has seen fit to appropriate the funds necessary to ensure that our facilities can keep pace with the training needs of our participating agencies. Only by doing so can we ensure the preservation of this important concept of consolidated training.

I also want you to know that every possible action is being taken to ensure the monies are being well spent. The Center is consulting closely with its participating organizations so that the design features of each project will meet current and future needs. This close consultation has prolonged the period it takes to design and construct facilities; however, we feel the time and effort are well spent because it will ensure that funds are efficiently and wisely used.

In this regard, I want to stress that the Master Plan represented our best estimates of our needs at the time it was developed. Obviously, changing events have and will continue to dictate modifications to the various projects outlined in the original plan and approved by the Administration and the Congress. I assure you that we will work through the Treasury Department, Office of Management and Budget, and the Congress in dealing with these changes.

Before moving on to other matters, I would also like to take this opportunity to update the Committee on the environmental restoration and reconstruction of the FLETC's outdoor ranges.

ENVIRONMENTAL RESTORATION/RECONSTRUCTION OF THE OUTDOOR FIREARMS RANGES

Congress provided $2,479,000 in our fiscal year 1993 appropriations to begin the restoration and reconstruction on one of the four outdoor firearms ranges at Glynco. This project is necessary because recent testing, done in conjunction with the Environmental Protection Agency and Georgia Environmental Protection Division, has disclosed that soil and surface water in and around the outdoor firearms ranges con-

tain unacceptable lead levels. Additionally, the introduction of more powerful weapons has raised noise and safety concerns for the communities adjacent to the FLETC. The restoration and reconstruction will rectify both problems. Cost of restoration and reconstruction of all four ranges is estimated at $22,500,000 and will be accomplished over a multi-year period to minimize the impact on training.

Now, I would like to take a moment and briefly update the Committee on activities at our two satellite training centers.

ARTESIA OPERATIONS

Purchase of the Artesia center was completed during fiscal year 1989. The facility was dedicated and the first two classes completed training in October 1989.

Training facilities at Artesia now include a 161-bed dormitory, cafeteria with seating to serve 400 persons per meal and a physical training complex. There are a total of ten general purpose classrooms which will accommodate up to 363 students. Special purpose classrooms include a 24-person computer classroom, a 24-person fraudulent document lab, and a 30-person law enforcement Spanish program classroom. Other specialized facilities at Artesia include a practical exercise area, a mock courtroom, driver training and firearms ranges and an obstacle course. Artesia primarily will accommodate advanced training programs for students posted in the western United States. It also will be able to accommodate overflow basic training that cannot be done at Glynco because of space limitations.

During fiscal year 1992, the Center trained 2,244 students at Artesia. In fiscal year 1993 the Center projects that 3,176 students will be trained there and 2,036 students are projected to be trained at Artesia in fiscal year 1994.

Although the Immigration and Naturalization Service is presently a large user of Artesia for advanced training, other users include the Department of State, the U.S. Customs Service, the U.S. Forest Service, the Federal Bureau of Prisons, the Bureau of Indian Affairs, the Department of Energy, the Internal Revenue Service, the Department of Agriculture, the National Park Service and the FLETC's National Center for State and Local Training.

The rehabilitation and expansion of the Artesia center as authorized by the Congress is continuing in a very satisfactory manner. As mentioned earlier, construction of the new physical training facility was recently completed. The building housing the cafeteria and student center has been completely rehabilitated and along with the main classroom building is fully operational. An interim driver/firearms training facility and ranges are in use with construction of the permanent facility and additional ranges expected to begin in fiscal year 1993. Construction of a much needed road and sidewalk network at both the main campus and the remote firearms and driving range complex has begun. Phase I of this project is already completed. Finally, acquisition of additional acreage for a buffer surrounding the remote firing and driving ranges also has been completed.

MARANA OPERATIONS

In 1984 the Department of Interior's Bureau of Indian Affairs (BIA) requested that the FLETC manage the Indian Police Academy, and assume responsibility for training its law enforcement personnel and tribal police officers. Because of the BIA's need to conduct its training at a site in the southwestern United States, the FLETC entered into a five year lease (fiscal years 1984–89) with Evergreen Air Center for the use of the Pinal Air Park at Marana, Arizona near Tucson. A second lease extended the arrangement for three years with two one-year options renewable at the Government's request. Including its options, this lease accord will terminate on September 30, 1994.

The Center conducted the first basic BIA training program in January, 1985. Since that time, training for BIA and other agencies has been conducted regularly. Principal users of the Marana facility have been the BIA and the U.S. Customs Service. This training is essentially for those students who are posted in the western regions of the United States.

During the period 1985–1992 the FLETC's Marana facility graduated 16,039 students and provided 34,155 student-weeks of training for an Average Resident Student Population (ARSP) of 82. However, the cost of training at Marana has increased dramatically since 1985. Because the lease with Evergreen Air Center required a guaranteed workload and because our agencies' projected workload did not materialize for various reasons, the Center was obligated to pay a higher cost per student day. We consider that higher cost unacceptable. Equally important, the cooperation and service extended to us by the lessor deteriorated to the point that it affected our ability to provide the quality of training our agencies expected.

In an effort to deal with these problems and to contain the rising costs at Marana, the FLETC entered into negotiations with Evergreen Air Center to reduce the guaranteed ARSP required in the current lease. These negotiations to reduce room and board costs have not been successful. Room, board and miscellaneous agency per diem expense at Marana under the contract were $43 per day compared to $25 a day at Glynco and $34 a day at Artesia.

Congress, aware of this problem, directed in its review of the 1993 appropriations that a study be conducted to ascertain the most appropriate way to continue training operations in southern Arizona. This report, recently submitted to your committee, recommends that the BIA basic training conducted at Marana be moved to the FLETC's Artesia center and that all other Marana training be moved to facilities which are available at Davis-Monthan Air Force Base in Tucson.

Pending final approval of this recommendation, the Center has entered into discussions with the Department of Defense (DOD) concerning the use of Davis-Monthan. A site activation survey has been submitted by the FLETC to the DOD requesting that the FLETC be allowed to activate at Davis-Monthan. Final decisions will be made by the FLETC only after the requisite approvals have been provided.

The plan, tentatively agreed to by the FLETC and Davis-Monthan, provides for the FLETC to acquire and occupy ten modular buildings on a site agreed to by Davis-Monthan. It also provides for the renovation and use of existing firing ranges and the provision of base support services to the FLETC by Davis-Monthan. These support services include food and lodging for the students.

Cost of operation at Davis-Monthan will be substantially less than cost currently incurred at Marana. The annual lease cost at Marana is $375,000 compared with an annual lease cost at Davis-Monthan estimated to be $103,000. With Davis-Monthan food and lodging cost, provided on a space available basis, at $12 per day, an average resident student population (ARSP) of 75 at Davis-Monthan would cost $328,000 annually. Because there is no longer a contract for food and lodging at Marana, these services must be obtained on the open market economy. Using current per diem rates, food and lodging costs at Marana for an ARSP of 75 would be $1,807,000 annually.

Now, Mr. Chairman, permit me to brief the Committee on the activities of our National Center for State and Local Training.

NATIONAL CENTER FOR STATE AND LOCAL TRAINING

Glynco's National Center for State and Local Training was established by the President in 1982 to provide training for State and local law enforcement agencies. Since its inception, the National Center has received broad support from the Federal, State and local law enforcement communities which provide subject matter experts for course and program development as well as instructional services.

The National Center is charged with training personnel from State and local law enforcement agencies in advanced topics designed to develop specialized law enforcement skills. Drawing on specialized training facilities already available at the FLETC and the expertise of the participating agencies' and FLETC's staff, participants receive instruction in advanced programs to meet their specific needs.

During fiscal year 1992, there were 3,735 State and local students trained through the National Center in 44 selected advanced training programs. In fiscal year 1993 we expect to train 4,317 students. In fiscal year 1994 we also project that 4,520 State and local students will receive training through the National Center.

Because of the success of the National Center, many of these programs are being conducted on an export basis at sites across the country, including our satellite centers. Indeed, the number of State and local students trained annually at Glynco has remained at approximately 2,000 for the last several years.

In the past the National Center has concentrated heavily on the delivery of Office of Juvenile Justice and Delinquency Prevention (OJJDP) programs. This very positive relationship was originally formed in 1982 with the joint development of the Police Operations Leading to Improved Children and Youth Services (POLICY) program and has continued with the development of other Juvenile Justice training programs.

However, the need for training of State and local police in the current Juvenile Justice programs is no longer a top priority based on responses from State and local agencies concerning their training needs. Given the National Center's limited staff and developmental resources we think it prudent to begin phasing out the current Juvenile Justice programs. Therefore, the National Center will begin to concentrate on the development and delivery of several high priority programs to address current and pressing needs of State and local police. These programs include ones such as the Gang Resistance and Education Training (GREAT) Program, Hate/Bias

Crimes Training Program, and the Airborne Counterdrug Operations Training Program.

The concept for GREAT originated in 1991 when representatives of the Bureau of Alcohol, Tobacco and Firearms (ATF) contacted police agencies in the Phoenix, Arizona area to encourage, through a Congressionally funded pilot program, the development of a teenage gang prevention program. Representatives from the Phoenix, Glendale, Tempe and Mesa Police Departments met and developed a program format designed to reduce gang activity and to educate young people about the consequences of gang involvement. It is modeled after the very successful Drug Abuse Resistance Education (DARE) program which is being taught throughout the world and is a very effective tool for preventing young people from becoming involved in drug abuse.

The National Center is collaborating with ATF and the Phoenix Police Department in the further development of the GREAT program and expansion from a localized effort to a national training initiative. Congress provided the FLETC $250,000 in fiscal year 1993 in support of this effort. The FLETC will use the funding to provide training sponsored by ATF and the Phoenix Police Department. A train-the-trainer pilot program was offered in Phoenix during March of this year. Thereafter, multiple offerings of this program will be made available to State and local agencies from throughout the country.

In fiscal year 1992, our staff at Artesia and the National Center, in cooperation with the Department of Justice's Community Relations Service, began development of the Hate/Bias Crimes Training Program. The program is designed to encourage State and local agencies to correctly report hate/bias crimes and enhance their capabilities in investigating and successfully prosecuting hate/bias incidents. Students will receive instruction in topics such as recognition and elements of a hate/bias crime, initial response procedures, victim/community needs, legal considerations, investigative strategies and tracking systems. Programs will be offered on a regional basis in a train-the-trainer format with the ultimate recipient of the training being the responding officer who arrives first at a hate crime incident.

Another training initiative of the National Center is the Airborne Counterdrug Operations Training Program. This program is designed to improve the ability of State and local law enforcement agencies to more fully and effectively utilize aircraft support available through various sources including the Department of Defense (DOD). Ground-based law enforcement personnel will be trained to serve as liaison officers in planning for and coordinating DOD provided airborne support. Civilian and military air crews will be trained in basic law enforcement practices, police concepts, law enforcement use of airborne resources and the vocabulary of law enforcement. Additionally, law enforcement airborne observers will be trained in the practice and techniques of airborne counterdrug operations. The need for this program is driven by the increasing amount of DOD and National Guard assets being made available for civilian counter drug operations.

FINANCIAL FRAUD INSTITUTE

Mr. Chairman, if I may, I would now like to spend a few minutes discussing the Center's Financial Fraud Institute.

The Financial Fraud Institute (FFI) was established by the FLETC's Board of Directors in April 1989 to serve as the hub for the Federal Government's efforts in the fight against sophisticated white collar crime. The FFI provides training and/or coordinates training related research and course development, and provides an organized network for sharing training concepts/materials in the white collar crime arena including financial and computer crimes.

The FFI is a proactive organization that identifies the training methodologies and provides the knowledge and skills criminal investigators need to combat the ever increasing sophistication of financial and computer crime. Offering programs such as Criminal Investigations in an Automated Environment, White Collar Crime Training Program, Advanced Financial Fraud Training Program, International Banking and Money Laundering Training Program, Seized Computer Training Program, and the International Financial Fraud Training Program, to name a few, the FFI is an important element in dealing with this growing crime problem. It receives guidance from a consultant group made up of government and private industry experts including the Internal Revenue Service-Criminal Investigations Division; the Inspector General community; and representatives from the American Bankers Association, Computer Security Institute, and American Institute of Certified Public Accountants, among others.

NEW TRAINING TECHNOLOGIES

In addition to its extensive efforts in hands-on training, the Center continues to investigate new methodologies and technologies for delivery of training to meet the demands of its participating agencies. This effort naturally involves discussion with our participating organizations on their current and future requirements and the review of existing and new technologies. If I may, I would now like to take a few moments and discuss how we view the future of law enforcement training as it relates to new training technologies.

Throughout the worldwide training community, there is an increased demand and widespread use of simulators to replicate or emulate situations or equipment which trainees will encounter in the performance of their duties.

The FLETC has already incorporated simulators into its training courses. One example is the Judgmental Pistol Shooting (JPS) program originally conceived at Glynco and now marketed commercially. This system consists of a microcomputer and a revolver or semi-automatic pistol containing a laser module. The student, in using the JPS, is required to make a correct judgment or decision involving the use of deadly force in response to a series of shoot/don't shoot scenarios. The simulator evaluates and graphically displays the shooter's judgment, accuracy, reaction time, and appropriate training options.

Properly utilized, simulated training results in a better trained individual, and one more safely prepared to accomplish his/her required mission. Students are able to practice dangerous or life threatening situations with little or minimized danger. They practice under conditions which are closer to real-life situations than otherwise might be possible, and instructors are able to evaluate how well students are able to apply previously learned facts, concepts, or principles to real-life situations. Often it is less costly in the long term. For example, using the JPS system described earlier, the Center saves thousand of dollars per year in ammunition costs alone.

Before closing, Mr. Chairman, I would like to discuss briefly the FLETC's Award of Excellence in Law Enforcement Training, FLETC's support of the A–76 program encouraging contracting functions to the private sector and our commitment to, and our progress in implementing "Total Quality Management."

AWARD OF EXCELLENCE IN LAW ENFORCEMENT TRAINING

In January 1993, the Center held its second ceremony to present the Awards of Excellence in Law Enforcement Training. These awards honor individuals and organizations making outstanding contributions to the profession of law enforcement training and recognize four levels of achievement: Individual Achievement, Large Organizational Achievement, Small Organizational Achievement, and Lifetime Achievement. They are presented annually by the Secretary of the Treasury. We believe these awards provide deserved recognition to the law enforcement training profession.

CONTRACTUAL SERVICES

When the FLETC began operations at Glynco in 1975, management officials made a conscious decision to contract out all activities related to food service, dormitory operations and janitorial services. These functions could be performed in-house; however, they are inherently commercial in nature and are best performed by contract. Since that time the FLETC has been very aggressive in implementing OMB Circular A–76, Performance of Commercial Activities; conducting cost studies in areas where substantial savings might be achieved. As a result, the operation of the following activities previously performed by government employees have been contracted out: maintenance of roads and grounds, student transportation, security, maintenance of administrative buildings, dormitories and dining facilities, student registration, physical training clothing and equipment issue, warehouse support, firearms issue and receipt, and student records management. In addition to the activities listed above, a considerable portion of the FLETC's photographic and audiovisual activities have also been contracted out.

Currently, approximately 37 percent of the FLETC's Salaries and Expenses account goes to support these contracts. I want to assure the Committee that the Center will continue to investigate opportunities to reduce operating costs through contracting for services.

FLETC QUALITY

I would like to mention that the Center continues to adopt new concepts and methodologies to ensure that the quality of our training remains high and that the

Center remains an innovator in the field of law enforcement training. For example, beginning in fiscal year 1991, total quality management concepts were adopted by the Center. Top management, including myself, received 20 hours of training in these concepts. During fiscal year 1992, most of the Center's instructors and support staff received this same training, and all our staff will complete it in fiscal year 1993.

This initiative, which we call "FLETC Quality," focuses on continuous review and analysis of work processes to solve problems or to identify better methods for accomplishing tasks by those actively involved in the work process. Employee involvement and empowerment is a cornerstone concept of total quality management. Encouraging and providing employees the opportunity to review and make recommendations in their work processes gives employees a voice and a sense of ownership in the center which, we feel, will lead to improvements in quality and efficiency in all service and training areas.

CLOSING

Mr. Chairman, in closing, I would like to emphasize that I remain strongly committed to the effort of the Administration and this Subcommittee to control Government expenditures. At the same time, I am committed to the mission of the Center to provide high quality training at the lowest possible cost. Substantial savings are being realized through the operation of the Center as a consolidated training facility, and I recognize that our success is made possible, in large part, through this Committee's support and guidance. I look forward to your continued support as we strive to remain a Center of Excellence.

My colleagues and I are available to answer any questions you may have concerning this appropriation request.

STATEMENT OF JOHN P. SIMPSON

Mr. Chairman and Members of the Subcommittee, it is a pleasure to appear before you today to discuss the fiscal year 1994 budgetary requirements of the Federal Law Enforcement Training Center. With me today are Charles F. Rinkevich, Director, of the Federal Law Enforcement Training Center and members of his staff.

Our fiscal year 1994 request for the Salaries & Expenses appropriation is $47,195,000 and 459 full-time equivalent (FTE) positions. This represents a net increase of $37,000 and a reduction of 7 FTE's when compared with the fiscal year 1993 authorized level. The proposed increase of $1,280,000 to maintain current level of operations, is offset by a reduction of $1,243,000 and 7 FTE's in nonrecurring costs. The staffing reduction responds to Executive Order 12839, which requires each department with over 100 employees to achieve at least a four percent reduction by fiscal year 1995. Director Rinkevich will be providing you and members of your Subcommittee with the specifics of FLETC's programs. However, I would like to take this opportunity to give you an overview of Federal Law Enforcement Training Center from the Treasury Department's perspective.

The Center's fundamental mission is to conduct basic and advanced training for the majority of the Federal Government's law enforcement personnel. Training is also provided for State and local law enforcement in specialized areas to support their specific needs.

The Center's workload has grown substantially over the last decade. Currently 71 Federal agencies participate in more than 200 different programs at the Center, and we like to think that each of those agencies believes that it has a stake in the Center and a voice in its management. During fiscal year 1992, 26,852 students were graduated from the Center, representing 85,130 student-weeks of training.

In order to accommodate the need for training and keep the Committee apprised of new developments, we have updated the original Master Plan. A copy of the revised plan was provided to the Congress in September 1992.

The Master Plan update refined earlier estimates and incorporated changes necessary to meet the evolving training needs of the Center's participating agencies. The current estimate to completely implement the Master Plan is $111.3 million. Through fiscal year 1993, Congress has appropriated $58.1 million dollars, or about 52 percent of the funds needed for the Plan.

I am pleased to report that we are making progress on implementing the Master Plan. We expect to complete construction of a new dormitory at Glynco in April 1993. Several other projects—expansion of an indoor firearms range, two outdoor firearms ranges, and the cafeteria—are expected to be completed in fiscal year 1993 and fiscal year 1994. We would all like to take this opportunity to thank the Subcommittee for its continued support for the Center's construction program.

In closing, Mr. Chairman, let me observe that those of us who have watched the Center's development over almost the last two decades are proud of its achievements and satisfied that it has accomplished the purpose for which it was created. It provides uniform, high-quality training of law enforcement officers, and most of this training is offered in a consolidated setting that allows significant cost savings to be realized. This is a credit to the outstanding management of the Center under director Rinkevich and his predecessors, and most of all to the consistent support that this Subcommittee has provided over many years to transform the Center from a vision to a reality.

With your concurrence, Mr. Chairman, may I ask Director Rinkevich to present his prepared statement and then we will be pleased to answer any questions you or other members of the Subcommittee may have.

Thank you.

MASTER PLAN

Senator DECONCINI. I do have a few questions.

Let me go to your master plan, seeing as how we just had this fine presentation.

In your fiscal year 1994 proposed budget for acquisition construction improvements the total is $6.712 million. This amount reflects a reduction of $10.589 million from the fiscal year 1993 enacted level, including the transfer from the special forfeiture fund. Additionally, the request does not include any new funds for continued implementation of the master plan.

Last year, you testified that the master plan would be 57 percent completed. Can you tell us what percent of the master plan will be completed in fiscal year 1994? Still 57 percent?

Mr. RINKEVICH. No, sir; in fiscal year 1994 we estimate that of the dollars that have been appropriated to us we will have expended about 45 percent. We estimate by the end of fiscal year 1994 that we will have completed about 23 percent of the master plan.

One of the reasons there is a difference in those numbers, Mr. Chairman, is that we revised the estimates in our master plan since my last testimony. The reason for that is that as time passes additional costs creep into the projects. Part of the reason for increase had to do with additional projects or a major project that had not been finally costed out. When we did that costing out, we included that in the update.

The percentages I have just given you—45 percent of the appropriation will be completed by the end of fiscal year 1994 and 23 percent of the total master plan will be completed by the end of this fiscal year—reflect numbers against the $111 million, which is the current estimate for the master plan as opposed to the $86 million, which is what we had estimated earlier.

Senator DECONCINI. Where did we get this 57 percent completion in fiscal year 1993?

Mr. RINKEVICH. I think that was against what was estimated to be the cost of the master plan at that time, Mr. Chairman.

Senator DECONCINI. So these are real costs that you are talking about?

Mr. RINKEVICH. That's correct.

Senator DECONCINI. I thought the Treasury was interested in the implementation of this master plan. What happened? Maybe you are not the guy to ask, but obviously there has been a big reversal or delay in moving ahead on this.

Mr. RINKEVICH. I can tell you, Mr. Chairman, that the Department has been very supportive of the master plan. Of course, this is an unusual year for all of us in Government. I think the fiscal year 1994 budget request before you reflects a determination on the part of the Department to live up to the President's deficit reduction goals. The Center is asked to take its share of that.

Senator DECONCINI. There is no backing away from the master plan other than the fact that everybody has to reduce spending?

Mr. RINKEVICH. I don't see any indication of that at all.

Senator DECONCINI. What did you request to the Department for fiscal year 1994?

Mr. RINKEVICH. I don't know that I have those numbers with me. We can certainly get those for you.

[The information follows:]

The Master Plan projects requested included the following:

Project	*Amount*
Dormitory (construction)	$7,402,000
Library/learning resource center (A&E)	350,000
Shotgun training area (construction)	450,000
Practical exercise facility (A&E)	290,000
Dormitory No. 2 (A&E)	875,000
Warehouse expansion (construction)	2,430,000
Athletic fields (A&E)	60,000
Renovate buildings 63 and 65 (A&E)	260,000
Tactical response range (A&E)	1,500,000
Firearms multipurpose building (A&E)	264,000
Total	13,881,000

Subsequently, the following projects were funded from the $5 million transfer from the ONDCP Special Forfeiture Fund.

Project	*Amount*
Shotgun training area	$450,000
Practical exercise facility	290,000
Warehouse expansion	2,430,000
Firearms multipurpose building	264,000
Uncommitted	1,566,000
Total	5,000,000

The FLETC has recommended that the uncommitted amount of $1,566,000 be utilized for the A&E design of the Tactical Response Range. The Administration is reviewing that recommendation.

TACTICAL FIREARMS RESPONSE RANGE

Senator DECONCINI. What is the current status of the tactical firearms response range? Was any of the $5 million from the forfeiture fund used toward this project?

Mr. RINKEVICH. Yes; of the $5 million we received in the asset forfeiture fund, we asked that $1.5 million be allowed to be used by the Center for the architectural and engineering study for the response range.

The Department and the Office of National Drug Control Policy approved and it is now pending an OMB approval. They have indicated some concern about allowing us to use those dollars, but we are waiting for that response from OMB.

Senator DECONCINI. Why? What is the reason they give you? Do you know?

Mr. RINKEVICH. I am not sure they have given us a reason at this point, Mr. Chairman. I would assume that that commitment would imply a commitment to fund the entire project. That is a very expensive project. It is a $15 million project in total.

Senator DECONCINI. How much do you need to complete it? Is it $15.5 million?

Mr. RINKEVICH. Actually, it is $15 million, minus the $1.5 million.

ASSET FORFEITURE FUND

Senator DECONCINI. We gave you $5 million for it and only $1.5 million has been submitted for approval of use. What about the rest of that?

Mr. RINKEVICH. The other $3.5 million in the $5 million from the asset forfeiture fund we allocated with Department, ONDCP, and OMB approval to other projects.

Senator DECONCINI. I thought we designated it for the tactical firearms.

Mr. RINKEVICH. Mr. Chairman, we did not. The reason that we did not is that there would have been no useful expenditure of it beyond the A&E at this stage. In other words, the A&E was going to cost us $1.5 million. To allocate additional dollars to it would have been in effect fruitless until we got the A&E done.

I believe in the final analysis the language that came into our appropriations bill gave us some flexibility.

Senator DECONCINI. It may have. It was my intent that it be for the tactical firearms. That is a continuation of appropriations so it doesn't lapse, I understand.

Mr. RINKEVICH. That is correct.

Senator DECONCINI. I thought that was a real priority of yours, and certainly of ours. So we are back to $15 million less $1.5 million that you need if you are going to proceed.

Mr. RINKEVICH. That is correct.

Senator DECONCINI. Now of that $5 million that we gave you, $3.5 million has gone someplace else.

Mr. DOOHER. Mr. Chairman, I think last year the Senate report had directed that there be $9 million made available from the asset forfeiture fund, some of which was to be for the dormitory and the remainder for the startup of the tactical firearms range.

Senator DECONCINI. Didn't we say $5 million?

Mr. DOOHER. The conference committee reduced the amount to $5 million. The assumption was that it could be used for both of them; but in the absence of any specific direction and with insufficient funds to do either project, we had to develop alternative projects.

Senator DECONCINI. Maybe it is our fault for not designating. We understood that that is where it would be spent.

Mr. RINKEVICH. I should say also, Mr. Chairman, that is still a priority for the Center.

Senator DECONCINI. If we provided the funds in fiscal year 1994, when would you expect the range to be completed?

Mr. RINKEVICH. We are not in the process because the money is on hold, so we haven't even gone to A&E at this point without OMB approval. But that would obviously be the first step. When

that was done, we would start actual construction. I would estimate that we are talking about a couple of years at least.

TACTICAL FIREARMS TRAINING FOR AGENCIES

Senator DECONCINI. One of the reasons we moved on this was that Customs was complaining that they didn't think people were adequately trained. They talked to us about providing funds to build their own range and we turned them down. With the $5 million gone and not spent for this and then OMB not deciding whether you can even allocate the $1.5 million, we are in kind of a bind, aren't we?

Mr. RINKEVICH. Yes, sir.

Senator DECONCINI. What do you think Customs is going to do?

Mr. RINKEVICH. I think Customs is going to have to continue to either defer or do that training on a makeshift basis. There are a number of agencies that are in that same situation besides Customs. I know Customs was one of the early ones, but ATF is another agency that has requested that kind of training and we have not been able to provide it. There are others out there as well.

Even under the best of circumstances, we realize that the construction of the tactical response range would be some time in the future. We have begun with funds available in our construction account to design some interim facilities for tactical live fire training. We will be building at Glynco a live fire shoot-house, a very scaled-back version akin to what the military uses, and then two tactical training areas that we call simulation shoot-houses. They will not allow for live fire training to occur inside these structures, but they will allow for nonlive ammunition such as paint pellets.

We are also constructing two courses—a leadership reaction course and a confidence course—that will be part of this complex. This project will cost less than $500,000 and will be completed within a year or so. It will provide us with the makeshift capacity to conduct the type of training that Customs, ATF, and the other agencies want, pending the actual construction of our tactical response range. This will not have the capacity nor the flexibility of the tactical response range.

Senator DECONCINI. When will those be completed?

Mr. RINKEVICH. I think the plan is by the end of calendar year. We will not be able to offer to Customs and ATF everything they wanted, but something better than they have at the Center today.

STAFF REDUCTION

Senator DECONCINI. It is disturbing, Mr. Director, and I don't know quite how to handle it with no request and no money. I don't know what we're going to do to get you what you say is a high priority. The administration doesn't seem to consider it as such.

I notice that your fiscal year 1994 budget for salaries and expenses has a staffing reduction of 12 FTE's and an increase of $37,000. I understand that the staffing reduction is proposed to comply with the President's Executive order maintaining a 1-percent reduction. Is that correct?

Mr. RINKEVICH. That is correct, sir.

Senator DECONCINI. I see also from your budget documents that you intend to take the lion's share of the position reduction in the law enforcement training area. Specifically, your budget indicates you will take a seven-position reduction in instructors.

Can you tell me what impact that is going to have on your ability to meet your training demands?

Mr. RINKEVICH. The reason we took the reduction there, Mr. Chairman, is because other Federal agencies are being asked to take similar reductions. We made the assumption that there would be a decreased training workload because other Federal law enforcement agencies would be making similar reductions. Therefore, we felt that would be the area in which we could justify fewer numbers of instructors associated with that training.

That will work if our attrition occurs. And we are doing this by attrition. We don't anticipate at all having to do a reduction in force. If our attrition occurs on the instructional side, we will be in good shape because theoretically that workload is going to drop. It will only be if the attrition occurs elsewhere that we will have some problems.

Senator DECONCINI. No reductions for fiscal year 1994?

Mr. RINKEVICH. Mr. Chairman, there is a reduction of seven for fiscal year 1994, as I recall. It will be five in fiscal year 1993, seven in fiscal year 1994.

Senator DECONCINI. And no reduction in your plant operations for fiscal year 1994?

Mr. RINKEVICH. In FTE?

Senator DECONCINI. Yes.

Mr. RINKEVICH. We are not anticipating taking any reduction in the plant operations, principally because we still have that 52 percent of the master plan projects funded and we need the engineers and the construction inspectors in place to make sure that we can do that properly. We are really looking to see the training workload decrease account for that reduction.

ADMINISTRATIVE EXPENSES

Senator DECONCINI. You have also made a reduction of 3 percent of about $586,000 in administrative expenses. What specific activities are you going to have to cut?

Mr. RINKEVICH. We will have to get back to you for the record on that, Mr. Chairman.

[The information follows:]

The $586,000 reduction in administrative expenses will involve the following activities:

Funded basic training ($293,000)—Since there is a Governmentwide FTE reduction, we expect a reduction in training workload.

Travel and transportation ($40,000)—reduction of business and training related travel.

Rents, communications and utilities ($58,000)—implementation of energy conservation measures.

Other services and printing ($162,000)—reduction of training tuition and contractual services.

Materials and supplies ($33,000)—reduction of inventories.

TRAINING PROJECTIONS

Senator DECONCINI. On your training projections, your budget justification shows training estimates for criminal investigative basic training will increase by 37 percent in fiscal year 1994 from fiscal year 1993. In addition, your other basic training is expected to increase by 13 percent.

I recognize that you project that training in advanced areas will be down in fiscal year 1994. How can you expect to meet the increase in demands for basic training with a reduction of training staff and resources?

Mr. RINKEVICH. If those projections, which are in the budget, were to materialize, we would not be able to do that. Since these training projections were used to construct this budget, we have had a Governmentwide decrease in FTE and we are making the assumption that that will affect the workload that comes to the Center. The accuracy of those projections for fiscal year 1994 is suspect at best at this point, but they were the most accurate figures we had at the time we constructed the budget.

DENIAL OF TRAINING

Senator DECONCINI. Will any agency be denied by FLETC in fiscal year 1994 as a result?

Mr. RINKEVICH. Mr. Chairman, through the support of this committee and the Congress, the Department, and OMB, our policy has been not to retreat from our commitment to fund the direct cost of basic training for our agencies. So far, we have not been put in a position where that has occurred. I would say the same thing for fiscal year 1994. We will do our very best to marshal the financial resources to live up to the Center's commitment to our agencies.

POLICE CORPS LEGISLATION

Senator DECONCINI. Mr. Director, what about the President's proposal of community policing initiative of 100,000 more policemen on the streets of America? Did you consider in your planning with the administration at all of training any of those policemen?

Mr. RINKEVICH. We have not done any work in regard to preparing for that.

Senator DECONCINI. Nobody has shown you any specifics of that or what training would perhaps be required as a part of that?

Mr. RINKEVICH. That is correct. We are aware, of course, that a police corps bill has been developed and introduced in the Senate. There is some training inherent in that. Whether the Center would be involved or not is beyond my knowledge at this point.

Senator DECONCINI. Thank you, Mr. Director. I appreciate your testimony. If you can provide us with that basic information we asked for we would appreciate it.

That's a very fine job you're doing down there. I am sorry to have to see your agency have to take such a hit, but that is the way it goes. We will see what we can do.

Mr. RINKEVICH. Thank you, Mr. Chairman. I would like to leave a brochure with you that you might find interesting, if you have not seen it.

GREAT PROGRAM

Senator DECONCINI. Yes; I had a question on that—I forgot. Thank you for calling it to my attention.

Can you give us the status report?

Mr. RINKEVICH. That is not a status report, but it is one of the early brochures. We are in the process of redoing that brochure to give a little more information.

Senator DECONCINI. How many officers or instructors do you plan to train?

Mr. RINKEVICH. We are looking at eight classes of 36 students each, which is a total of 280 students starting sometime in June through the end of the summertime. That training will be conducted at Davis-Monthan and the use of the facilities have been arranged.

Senator DECONCINI. So classes will begin next year?

Mr. RINKEVICH. No; they will start in June of this year and go through the summer.

Senator DECONCINI. How long are the classes?

Mr. RINKEVICH. Some are 1 week and some are 2 weeks. The 2 weeks are for students who have no instructional background. The first week is to give them instructional techniques and the second week is for the program itself. If they come in with instructional background, it is only a week long.

Senator DECONCINI. In your judgment, does the program need to be expanded?

Mr. RINKEVICH. At this point, I think we are maximized to the extent that we can handle it, but it is likely that if this program is as successful nationally as it has been locally I think we can expect significant interest.

Senator DECONCINI. Does your fiscal year 1994 budget include the 250 to continue the program?

Mr. RINKEVICH. Yes, sir.

Senator DECONCINI. How much capacity do you have at Davis-Monthan if the program catches on and more requests are made and it becomes more national?

Mr. RINKEVICH. I can't give you a specific answer to that for the same reason as before concerning the housing because of the state of flux. I can tell you that Davis-Monthan has been extremely cordial and worked very closely with us. I am sure we can make maximum use of their facilities. Plus, there will be a need for some of those programs to be regionalized. So we anticipate some programs would be actually conducted in other States to give the agencies that can't afford to come to Phoenix the opportunity to get that same training.

Senator DECONCINI. We are very interested in the program. Obviously, we appreciate knowing how it goes after you do it this summer.

Mr. RINKEVICH. I should tell you, too, Mr. Chairman, that the cooperation between the Phoenix Police Department, ATF, and the FLETC has been superb with this program.

Senator DECONCINI. I am told that as well.

SUBMITTED QUESTIONS

Thank you, Mr. Director. It was nice to see you. We look forward to working with you. We will submit additional questions in writing to be answered for the record.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR DeCONCINI

Contracts

Question. From a review of your prior year budgets, it is obvious that FLETC relies heavily on contractual services. Has funding actually kept pace for contractual services for both increases in student training and construction activities?

Answer. The FLETC does indeed rely very heavily on contractual support. Including direct appropriations and reimbursables, approximately 40% of the S&E budget is devoted to contracts. Funding included in the FY 1994 President's budget and anticipated reimbursements provide sufficient resources for these contractual services.

Training Projections

Question. Will State and local training requests be denied as a result of a funding shortfall?

Answer. No. Funding for State and local training is included in the base. While there is no increase in the FY 1994 budget, the base funding is sufficient to meet the current requirements.

Master Plan Construction Activities

Question. What is your revised project date of completion of Master Plan projects?

Answer. Of the projects funded through FY 1993, the estimated completion date is FY 1997. As remaining projects are funded, actions will commence for their completion. The completion dates of these projects will depend on when funding is appropriated.

Question. How can you meet the increased training demands and respond competitively to agency requests for training if you do not have facilities in place to meet training needs of the agencies?

Answer. At the present time, two of the three phases of the Glynco Master Plan have been funded. Many of the projects in these two phases have alleviated or are about to alleviate the most critical facility shortages, primarily in the area of specialty training (i.e., driver, physical, and firearms). Also, one additional dormitory, classrooms and an expansion to the cafeteria have or will be completed soon. These projects should allow the Center to meet the baseline training needs of the agencies as now projected.

However, we will have to continue to rely on off-Center housing and some temporary facilities during peak workload periods. The need for additional facility expansion is dependent on future workload levels.

Question. The Congress provided funding in fiscal year 1993 for architectural and engineering work on several Phase II projects. Why isn't funding being requested in fiscal year 1994 to construct these projects?

Answer. The FY 1993 appropriation provided architectural and engineering funding for two projects -Shotgun Training Area and Warehouse Expansion. Also, included in the FY 1993 appropriation was $5,000,000 to be derived by a transfer from the ONDCP Forfeiture Fund. These ONDCP funds were committed to complete the funding of the Shotgun Training Area and Warehouse Expansion; therefore, additional funding in FY 1994 was not required to construct these projects.

Question. Can you provide us with an update accounting of Master Plan projects funded to date and those remaining to be funded? Can you also provide us a status with respect to the projects funded and when the outstanding projects will need to be funded?

Answer. The following chart is provided:

MASTER PLAN PROJECT	FUNDING TO DATE	STATUS AS OF 4/30/93
Phase I:		
Physical Techniques Consolidation/Expansion	$6,836,000	Under construction-completion 9/93
Indoor Firearms Range 1	3,061,000	Under construction-completion 7/93
Outdoor Firearms Ranges	4,536,000	Under construction-completion 10/93
Relocate Explosives Range	481,000	Cancelled-will not be relocated
Driving Range Expansion/ Vehicle Fueling Area	1,113,000	Developing A&E scope-construction 9/94-10/95
Cafeteria Expansion	1,300,000	Under construction-completion 1/94
Dormitory No. 1/Road Improvements	7,600,000	Completed
Rifle Range	2,651,000	In final design-construction 1/94-9/94
Renovate Building 66	950,000	Negotiating A&E-construction 9/94-3/95
Student Center	2,150,000	Developing A&E scope-construction 11/94-1/96
SUBTOTAL	$30,678,000	
Phase II:		
Two Classroom Buildings	$9,500,000	Reviewing 65% design-construction 6/94-5/95
Administrative Computer Complex	600,000	Developing A&E scope-construction 5/95-4/96
Relocate Graphics and Media Center/Renovate Building 18	1,800,000	Reviewing concept-construction 11/94-9/95
Computer Training Renovation	400,000	Cancelled-will be incorporated in new classrooms
Dormitory No. 2	823,000	Reviewing 100% design-construction unfunded
Renovate Building 46	300,000	Developing A&E scope-construction 5/95-2/96
Truck Entrance Gatehouse	44,000	Completed
Renovate Building 260	400,000	Developing A&E scope-construction 1/96-2/97
Relocate Procurement	600,000	Developing A&E scope-construction 6/96-1/97
SUBTOTAL	$14,467,000	

MASTER PLAN PROJECT	FUNDING TO DATE	STATUS AS OF 4/30/93
Phase III:		
Library/Learning Resource Center	$ 0	Unfunded
Shotgun Training Area	500,000	Developing A&E scope-construction 4/97-9/97
Practical Exercise Facility	290,000	Developing A&E scope-construction unfunded
Dormitory No. 3	0	Unfunded
Building 90 Conference Center	0	Unfunded
Classroom Building	0	Unfunded
Warehouse Expansion	2,700,000	Developing A&E scope-construction 9/96-9/97
Athletic Fields	0	Unfunded
Renovate Buildings 63 & 65	0	Unfunded
Registration Facility	0	Unfunded
Visitors' Center	0	Unfunded
Future Dormitories	0	
Tactical Response Range	200,000	Feasibility concept completed-unfunded
Firearms Multi-Purpose Building	264,000	Developing A&E scope-construction unfunded
Indoor Firearms Range 2	0	Unfunded
Uncommitted	1,566,000	
SUBTOTAL	$5,520,000	
Artesia:		
Dormitory Wing	$2,125,000	Bids issued-construction 8/93-8/94
Physical Training Facility	250,000	Completed
Interim Driver/Firearms Facility	200,000	Completed
Interim Firearms Ranges	175,000	Completed
Practical Exercise Areas	50,000	Completed
Recreation Areas	25,000	Completed
Walkways	50,000	Completed
A&E Services	125,000	On-going
Administrative Building	500,000	Concept being reviewed-construction 9/94-10/95
Front Gate Building	100,000	Concept being reviewed-construction 9/94-10/95
Permanent Driver/Firearms Facility	850,000	Bids issued-construction 9/93-9/94
Permanent Driver Training Range	500,000	Pre-award survey underway-construction 7/93-7/94
Permanent Firearms Ranges	250,000	Developing A&E scope-construction 7/93-10/93
Security System	150,000	Developing A&E scope-construction 11/93-1/94
Paving	515,000	Completed
SUBTOTAL	$5,865,000	
Marana:		
Dormitory	$ 0	Cancelled-moving to Davis-Monthan AFB
Classrooms and Offices	0	Cancelled-moving to Davis-Monthan AFB
Computer Training	0	Cancelled-moving to Davis-Monthan AFB
Language Laboratory	0	Cancelled-moving to Davis-Monthan AFB
Physical Training Facility	0	Cancelled-moving to Davis-Monthan AFB
Firearms Range	0	Cancelled-moving to Davis-Monthan AFB
Advanced Firearms Range	0	Cancelled-moving to Davis-Monthan AFB
Ammunition/Weapons Stage Facility	0	Cancelled-moving to Davis-Monthan AFB
Fenced Vehicle Maintenance/Parking	0	Cancelled-moving to Davis-Monthan AFB
Driver Training Range/PE Complex	300	Completed
SUBTOTAL	$300	
TOTAL	$56,830,000	

Decisions have not yet been made on funding for the remaining projects.

Question. Will the Master Plan be updated as a result of the change in location of the Arizona facility to Davis-Monthan Air Force Base? If so, can you provide us with your plans for this facility?

Answer. Yes, the Master Plan will need to be updated to account for this relocation. However, we will need to gain some experience at Davis-Monthan and finalize plans with the Air Force before specific proposals can be made. It is not clear as yet as to what existing facilities at Davis-Monthan will be made available for the FLETC use.

Question. For the record, can you provide the Subcommittee a complete listing of projects which you have the capability to undertake in fiscal year 1994 if the funds were made available? Can you also list these projects in priority order?

Answer. While there are some projects which could have been funded in 1994, none were proposed in the President's Budget due in part to the need to fund other priority items both within the Treasury Department and elsewhere. The decision to propose additional projects is dependent on a high-level review of future training needs and an assessment of a project's benefits relative to investments. No projects could be undertaken through completion in FY 1994 even if funds were made available. Since the architectural and engineering work has been completed, it is estimated that 80 to 90 percent of the $7,402,000 needed for Dormitory No. 2 in FY 1994 could be obligated.

Question. Your fiscal year 1994 budget includes $2,546,000 for environmental restoration and reconstruction of outdoor firearms ranges. What specific activities will these funds support?

Answer. The FLETC has four outdoor firearms ranges that were part of the Glynco Naval Air Station before the Treasury Department assumed ownership of it. The FLETC has used these ranges for the past eighteen years. There is now a problem with lead contamination of the ground and ground water at the ranges and possibly the surrounding area. Also, in view of advancements in the types of firearms used and increased training requirements of the participating agencies, there are serious safety and sound concerns with these ranges that must be addressed. The funds appropriated in FY 1994 will be used to help correct the existing problems and reconstruct the ranges in an environmentally safe manner to meet the stringent EPA standards of the 1990's.

Gang Resistance Education and Training Program

Question. Is the program meeting the demand?

Answer. The FLETC's involvement with this program is relatively recent and, at this point, we believe that

it is meeting the demand. We anticipate conducting eight classes this year and that experience will provide valuable insight regarding program design, training needs and other requirements.

Question. In your view, does this program need to be expanded in fiscal year 1994?

Answer. The program can be maintained at its current size and funding level in FY 1994.

Question. Can you provide us with a plan on the amount of funding which would be required to meet the training needs associated with the GREAT program if funding were no problem?

Answer. As stated above, it is the Administration's position that current funding levels are sufficient for this program at this time.

Southern Arizona Satellite Facility

Question. How will the number of students trained at Davis-Monthan compare to the number that were being trained at Marana?

Answer. The number should be approximately the same or larger.

Question. I understand that the BIA plans to move its training to Artesia. Can you tell us why and what impact this will have on training presently provided in Arizona?

Answer. The BIA, with concurrence from the FLETC, has already transferred their basic training to Artesia. The bulk of the BIA advanced training will remain in Arizona. The major reason for the BIA moving the basic training to Artesia is that they require on-site lodging because these are new law enforcement officers and the nature of the program dictates they receive close supervision. On-site lodging cannot be guaranteed at Davis-Monthan. The impact of this move on the training workload at Davis-Monthan, at least as far as the number of students, will be minimal. The BIA normally trains two basic classes of 48 students each for a total of 96 students per year.

Question. Have you discussed plans with Davis-Monthan for permanent quarters at the base? If so, what has been the result of those discussions?

Answer. We have made arrangements with Davis-Monthan to use the Bachelor Officer's Quarters and the Visiting Airman's Quarters for the students. Of course, this arrangement will be on a space-available basis. Additionally, the Air Force has contracts with local motels for lodging and has agreed to let us use them. If necessary, we can establish our own lodging contracts with local motels; therefore, lodging should not be a problem. At this time, it is unclear as to what will be available from the existing Air Force facilities.

Question. What will be the costs to train at Davis-Monthan as compared to Marana?

Answer. It will be much less expensive to train at Davis-Monthan than Marana. The lease cost at Marana is $375,000 as compared to a lease cost at Davis-Monthan of $103,000. The per diem at Marana for an average resident student population (ARSP) of 75 is $1,807,000 as compared to $328,000 at Davis-Monthan. Overall, this will represent an estimated annual savings to the Federal Government of over $1.7 million. Since the per diem is reimbursable, the savings accrue to the agencies that train there and not to the FLETC.

Question. Does the MOU that you entered into with the Air Force provide for permanent training at the base?

Answer. Yes. The Air Force has been very cooperative. They view this arrangement as beneficial to both organizations and are willing to accommodate us on a long-term accommodation.

Medical Care

Question. In fiscal year 1993, FLETC requested authority to permit the Center to provide medical services to its students and instructors at the various facilities. The conferees limited this medical service to first aid and emergency services. Is FLETC providing medical services beyond those considered to be first-aid and emergency services?

Answer. The FLETC has always maintained a small medical staff to provide preventive health care service and medical screening for the students and staff. The FLETC has trained over 20,000 students per year for the past several years. Most of these students are required to participate in very rigorous training exercises, including physical conditioning, self defense, firearms training and practical exercises involving physical contact with role players. Prior to starting this training, the FLETC

medical staff performs a very basic medical screening to determine whether the student is fit to participate in the training, which ultimately benefits both the student and the FLETC. The authority granted in FY 1993 was to go beyond that basic authority and to authorize our physician to provide first aid and emergency services. Essentially, because of the strenuous physical nature of the training, students do get injured. By providing the first aid and/or emergency service to the student, we prevent more serious injury, save valuable training time and keep the students on course for graduation. The FLETC is also providing short-term services, similar to a sickbay for military personnel. Doing so has been very cost effective and has greatly enhanced training by reducing time lost waiting in a doctor's office for routine treatments. Students at the FLETC are in a travel status, away from their homes, and if the Health Unit could not provide these extended services there would be a significant impairment of the training schedule while they sought medical care elsewhere.

Question. How much money do you estimate you will expend on this activity in fiscal years 1993 and 1994?

Answer. Since the medical staff was already on-board, the additional cost to provide first aid, emergency services, and short-term medical care were minimal; less than $50,000 for supplies.

QUESTIONS SUBMITTED BY SENATOR BOND

Training Schedule and Workload

Question. It is always easy to prepare a training schedule, but it is not always as easy to keep that schedule filled. Could you give us a brief sketch of the workload?

Answer. Based on agency projections, the FY 1994 workload is estimated to be 37,468 students involving 122,038 student-weeks for an average resident student population (ARSP) of 2,347. This workload is broken down as follows (based on April 1992 participating agency projections):

CATEGORY	STUDENTS	STUDENT WEEKS	ARSP
Basic Training	14,922	86,027	1,654
Advanced Training	18,026	30,154	580
State & Local Training	4,520	5,857	113
TOTAL	37,468	122,038	2,347

Question. Are the client projections fairly accurate?

Answer. The projections utilized in the budget process are submitted 18 months prior to the start of the fiscal year. In the months before the fiscal year starts and even during the fiscal year, the Congress and the Administration may have initiatives that impact the training projections. The agencies provide the most accurate projection possible considering the dynamic environment of law enforcement. The historical trend has been that in some years the workload is underestimated and some years it is overestimated.

Question. Do you make adjustments during the year?

Answer. As stated above, the agencies provide the initial projection 18 months prior to the start of the fiscal year. Projections are updated formally at least once prior to the start of the fiscal year. Informal adjustments are constantly made, both before the year starts and during the year. Also, in order to hold down costs at all FLETC sites, State and local and international training, which do not have the same priority as Federal training, are scheduled on-site as appropriate.

Question. How will the workload in FY 1994 compare to previous years?

Answer. In terms of projections, the workload is slightly less than what had been projected in some previous years. In terms of the training conducted, if we meet all the projected training, then it will be the busiest year in the history of the FLETC. Considering the current budget climate, we expect that the actual training will be less than the projections but should be in line with the actual training conducted in FY 1993.

Question. Is this a predictable phenomenon or is it a flexible one?

Answer. Years of experience and knowledge of the training requirements of the participating agencies allows us to make reasonable estimates. In dealing with 71 separate agencies however, flexibility to meet actual and anticipated requirements is important.

Question. Does this equate to basic, as well as advanced training?

Answer. Yes, at least to a certain degree. What makes the projections so difficult to lock in are the

initiatives that may be approved late in the budget process or hiring freezes that certain agencies may have to implement. The other major factor is the availability of travel funds by the participating agencies. It is possible that a training requirement exists but because of the lack of travel funds, the training has to be deferred by the agencies.

STATE AND LOCAL TRAINING

Question. State and locals use the Center on an as-available basis. What is the current usage level?

Answer. In total, we train approximately 4,000 State and local students per year. About half of that total is trained at the FLETC centers when space is available. The other half is trained at various locations around the country where there is a concentration of students in a local area.

Question. Do you see changes in the future?

Answer. The Center's primary mission is to train Federal law enforcement officers, but for the last decade the State and local training has become an important function. As long as the Federal workload remains as high as it has been for the past several years, there will not be additional available space to accommodate major increases in the State and local training; and given the growing demand for quality training by State and local agencies, I see no indication that demand for the training will lessen.

Question. Is there a need for a change in the level?

Answer. There is definitely a large demand for State and local training. The demand exceeds the Center's physical plant capacity with the current Federal training workload. If and when the Federal workload decreases, the State and local workload can easily be increased to take advantage of the situation.

STAFFING AND ADMINISTRATIVE REDUCTIONS

Question. The President has issued Executive Orders calling for staffing and administrative reductions. How will the Center effect these reductions?

Answer. Primarily, the staffing reductions will occur in the training area. The major reason is that the staffing reductions affect all Federal organizations; therefore, the Government-wide staffing and administrative reductions are expected to reduce the overall training workload at the Center.

Question. Are the current instructor positions vacant?

Answer. Some of the instructor positions are vacant, as are some of the administrative positions. Of course, these positions will not be filled until we reach our staffing reduction quotas. The remainder of the number required to reach the Center's reduction goals will come from attrition.

Question. What impact will the reduction have on your operations?

Answer. If the workload reduces as we anticipate and attrition occurs as planned, the overall impact on the Center's operations will be minimal.

MASTER PLAN

Question. This budget includes funding for completion of the environmental restoration/reconstruction of the outdoor ranges, which received partial funding in FY 1993. There is no Master Plan funding proposed. Are there plans in the future to take steps to resume funding of the Master Plan?

Answer. The Master Plan facility priorities are continuously reevaluated in light of current and future needs. Funding will be requested in line with the needs identified in this process. Additionally, we are reviewing the priorities of projects already funded and may adjust funding for some projects as necessary.

Question. What impact is this going to have on the Center and its training capacity?

Answer. Currently, funded projects will provide sufficient capacity to meet the FLETC's baseline training needs. Capacity needs will continue to be evaluated in light of training workload.

Question. Do you have any unobligated funds at this time?

Answer. The Master Plan is funded by a no-year account. Because of the long lead times necessary to design, advertise, award and construct multi-million dollar facilities, it is fully anticipated there will be unobligated funds carried over from one year to the next. Currently, we estimate $20 million of committed but unobligated funds will be carried over into FY 1994.

Question. Do you have plans for use of that funding?

Answer. All the funds in the Master Plan are committed to specific projects. It is only a matter of time until the design, reviews and approval are given to award the contracts and funds are obligated for the projects that the Congress has appropriated and approved.

Question. A time table for obligations?

Answer. We continuously monitor and update a time table for all Master Plan projects. The majority of the projects will be obligated during FY 1994. The current time table reflects that all Master Plan projects currently funded will be completed in FY 1995, 1996 and 1997.

FINANCIAL CRIMES ENFORCEMENT NETWORK

STATEMENT OF BRIAN M. BRUH, DIRECTOR

ACCOMPANIED BY:

JOSHUA L. STEINER, SPECIAL ASSISTANT TO THE DEPUTY SECRETARY

JOHN P. SIMPSON, DEPUTY ASSISTANT SECRETARY FOR REGULATORY, TARIFF, AND TRADE ENFORCEMENT

RONALD RICE, ASSISTANT DIRECTOR, SYSTEMS INTEGRATION

DANNIE SMITH, ACTING ASSISTANT DIRECTOR, RESOURCE MANAGEMENT

INTRODUCTION OF WITNESSES

Senator DECONCINI. Our next panel of witnesses consists of representatives from the Financial Crimes Enforcement Network. Testifying on behalf of FinCEN are Brian M. Bruh, Director; Ronald Rice, Assistant Director for Systems Integration; Dannie Smith, Acting Assistant Director for Resource Management; Joshua L. Steiner, Special Assistant to the Deputy Secretary of the Treasury; and John P. Simpson, Deputy Assistant Secretary.

Welcome, gentlemen. Your fiscal year 1994 budget request for the Financial Crimes Enforcement Network totals $18.28 million and 147 FTE's. This amount reflects a reduction of $2.962 million and 4 FTE's below the fiscal year 1993 enacted level, which included a $2.8 million transfer from the Office of National Drug Control Policy's special forfeiture fund.

Director Bruh, I have a number of questions I want to ask you on this subject, you may summarize your statement, if you would like.

STATEMENT OF BRIAN M. BRUH

Mr. BRUH. Thank you, Mr. Chairman.

I know you know about the Financial Crimes Enforcement Network, so I won't go into detail on what we do, but I would like to say that we are nearing our third birthday on April 25.

In this past year in particular, with a budget of about $18.3 million, we supported more than 3,700 investigations, of the kind that we call a prompt or quick turnaround investigation, in which agencies call us up and need help in a hurry. We also supported some 715 long-term investigations. We did analytical work on about 28,000 persons or entities that are either under investigation or connected with persons or entities under investigation.

We also did some 85 strategic reports, which examine the trends and patterns of money laundering, and we disseminated that information to Federal and State as well as foreign law enforcement organizations.

SOUTHWEST BORDER MONEY LAUNDERING CONFERENCE

I am pleased to say that we are continuing to work very closely with your attorney general's office and plan to sponsor another Southwest Border Money Laundering Conference jointly with them in June.

Senator DECONCINI. Is that in Arizona?

Mr. BRUH. Yes, it is.

Senator DECONCINI. Are you doing that with other attorneys general as well?

Mr. BRUH. We currently are doing it only with the Arizona attorney general and are inviting other State attorneys general offices to attend this conference.

I think FinCEN is the kind of organization that meets with both the President's concerns and initiatives, as well as those of the Congress, because we leverage scarce resources best by the way we do our business—using technology and the expertise of our people so that law enforcement can continue to learn how to analyze these kinds of problems.

I am prepared to answer any of your questions.

PREPARED STATEMENTS

Senator DECONCINI. Thank you, Mr. Bruh. I appreciate that. We have your prepared statement and a statement from John P. Simpson, Deputy Assistant Secretary with the Federal Law Enforcement Training Center. Both statements will be made part of the record.

[The statements follow:]

STATEMENT OF BRIAN M. BRUH

Mr. Chairman and Members of the Subcommittee, I am Brian Bruh, Director of the Financial Crimes Enforcement Network. I am pleased to be here today to discuss FinCEN's fiscal year 1994 budget request.

With me today are Josh Steiner, Special Assistant to the Deputy Secretary of the Treasury, and John Simpson, Deputy Assistant Secretary for Regulatory, Tariff and Trade Enforcement. Also, several of my senior staff are with me. Ronald Rice, as Assistant Director for Systems Integration, is the head of FinCEN's computer operations and development efforts. Dannie Smith is FinCEN's Division Chief for Financial Management and Logistics, who is attending this hearing as Acting Assistant Director for Resource Management.

FISCAL YEAR 1994 BUDGET REQUEST

For fiscal year 1994, FinCEN is requesting authority to obligate a total of $21,080,000 and expend 147 FTE. Included in this total is $2.8 million, transferred to FinCEN in fiscal year 1993. for development of a massively parallel processing system. Because this $2.8 million will not be obligated in fiscal year 1993, FinCEN is requesting that it be reprogrammed to offset fiscal year 1994 costs. Therefore, FinCEN's fiscal year 1994 budget request represents an increase of $2.6 million above its fiscal year 1993 anticipated obligations of $18,442,000, and a decrease of 2 FTE from its fiscal year 1993 ceiling of 149 FTE.

FinCEN's requested funding for fiscal year 1994 includes $2.6 million for program initiatives and changes, and $0.7 million for annualizations and increases necessary to maintain current levels of operation. These increases are offset by $2.9 million in nonrecurring costs, $0.7 million in reductions and savings, and (as noted above) $2.8 million in start-of-year unobligated funds.

MISSION

FinCEN is a Treasury Department law enforcement organization, created by Treasury Order 105–08 in April 1990, to support, in a non-parochial manner, law enforcement and regulatory agencies in the investigation and prosecution of money

laundering and other financial crimes. To perform this mission, FinCEN was mandated to be the central source for systematic identification, collation, and analysis of law enforcement and public data sources which, when linked together, could point to criminal financial activity that would otherwise go undetected.

FinCEN is small, currently with only about 200 employees, including detailees from other agencies. Also, FinCEN is operating with a current direct budget of $18.3 million. Yet, last year FinCEN provided support to over 3,700 investigations conducted by Federal, State and local, as well as foreign, law enforcement agencies.

To accomplish its mission, FinCEN must use information productively, constantly reevaluating the way in which it targets its resources to gain maximum effectiveness. It provides a service that is crucial to the successful planning and completion of financial investigations. That service requires centralized access to vital sources of law enforcement and financial information. To fulfill its mission most effectively, FinCEN must achieve a balance between its responsive and proactive efforts, as well as among the agencies to whom it provides support.

Many agencies, especially at the State and local level, do not have the resources to perform this service for themselves. FinCEN is finding that one of its major challenges is allocating the optimum level of resources to maintain a working relationship with each agency that needs its support, while not neglecting other agencies that also depend upon its services.

For example, there is a constant tension inherent in satisfying the demands of both Federal as well as State and local agencies. At the same time, FinCEN must also achieve a proper balance between responding to agencies' requests for tactical assistance on their ongoing investigations, on the one hand, while leading agencies to open investigations on new targets uncovered by FinCEN, on the other hand.

Another area in which FinCEN is trying to achieve a balance is that of determining what types, or the appropriate "mix", of investigations to support. FinCEN's budget is dedicated primarily to anti-drug efforts. Yet, it provides support for investigations of other, equally serious crimes affecting the United States, such as fraud in our financial institutions, health-care, insurance, and Federal programs. A related issue involves the demand for both tactical case support and broader scale, "strategic" efforts that help us understand the patterns and methods of financial crimes.

STAFFING

FinCEN's unique staffing helps it build and maintain multi-agency access to information. Its staff of about 200 employees includes 39 special agents on long-term details of two or more years from 14 Federal agencies, as well as intelligence analysts, and computer specialists. These people apply intelligence analysis, law enforcement expertise, and state-of-the-art computer technology in support of financial investigations, resulting in arrests and seizures of assets by the investigating agencies.

At FinCEN, agents and analysts work together in support of multi-agency investigations. By facilitating such inter-agency cooperation, FinCEN is also building centralized expertise at finding assets, creating data linkages, and working with often complex databases. FinCEN, therefore, represents an efficient, cost-effective means of combating increasingly sophisticated financial crimes.

INFORMATION SHARING

FinCEN's operation is driven by research and analysis of information from various law enforcement, financial (Bank Secrecy Act), and publicly available databases to which it has direct computer access. It obtains computer access to data maintained by Federal, State and local law enforcement and regulatory agencies through information sharing agreements or memoranda of understanding (MOU's).

Currently, FinCEN has signed MOU's with 10 Federal agencies, and the National Association of Securities Dealers. Also, on February 19, 1992, FinCEN signed its first foreign MOU with TRACFIN (Traitement du Renseignement et Action contre les Circuits Financiers Clandestins), its counterpart in France. At this time, FinCEN has also entered into negotiations of MOU's with the United Kingdom and Australia.

To date, all but three states have signed MOU's with FinCEN. Negotiations of MOU's with Louisiana, Virginia, and Washington, D.C., will soon be completed. FinCEN currently responds to requests for assistance from these jurisdictions on an ad hoc basis. Montana is the only state that has not yet decided whether to enter into an MOU with FinCEN.

Each state MOU formalizes procedures whereby state agencies channel requests to FinCEN through a designated state Coordinator. Coordinator responsibilities are assigned to agencies that have state-wide law enforcement Jurisdiction, such as a state's Police Department, Bureau of Criminal Investigation, or Office of the Attor-

ney General. Responsibilities of the State Coordinator include screening requests to determine if they are appropriate for FinCEN's analysis. and assuring that the law enforcement officers making the requests are members in good standing with their respective departments.

As a result of FinCEN's information sharing agreements, it has direct access to an enormous amount of law enforcement information. With this access, FinCEN has a unique ability to link data and serve as a communications center. In several instances, FinCEN has discovered that more than one law enforcement agency was investigating the same subject or organization, and has brought the agencies together to coordinate their investigations. In addition to promoting efficiency in law enforcement efforts, this also helps promote the safety of law enforcement personnel.

TACTICAL SUPPORT

FinCEN continues to support an increasing number of requests for tactical assistance. In fiscal year 1992, FinCEN's Operations Center handled immediate responses to requests for case support from the field involving almost 12,000 individuals and other entities, up from just over 5,000 persons in fiscal year 1991.

FinCEN's Operations Center completes 80 percent of FinCEN's tactical work product in a limited response format, containing intelligence data drawn from the law enforcement, financial (Bank Secrecy Act data) and commercial systems available at FinCEN. The Operations Center reports are provided as rapid responses to case specific requests for assistance from field units within the Federal, State and local law enforcement community.

FinCEN tracks the use and effectiveness of its tactical products in a number of ways. All tactical work products include feedback forms, which contain questions relative to the value of the data provided, the disposition of the case, and the degree to which the FinCEN product contributed to the results. Currently, FinCEN receives feedback responses on about 25 percent of the reports it disseminates. Virtually all evaluations received give FinCEN's work products high marks for usefulness.

CASE EXAMPLE

The following hypothetical case example illustrates how FinCEN typically responds to requests for immediate tactical case support.

In a drug bust, a law enforcement officer arrested a suspect, searched him, and found a notebook containing a telephone number and what appeared to be a person's first name. The law enforcement agency asked FinCEN to find out what, if anything, could be developed from these two pieces of information. Although this might sound like "mission impossible", for FinCEN it is a routine exercise.

First, by querying the telephone number in a commercial database of business phone numbers, the FinCEN analyst got a positive match with the telephone number of a local restaurant.

The FinCEN analyst then searched the Treasury Financial database for any Currency Transaction Reports or "CTR's", which had been designated as "suspicious" by financial institutions filing the reports. This search was made for the geographic area within the zip code in which the restaurant was located.

A series of "suspicious" CTR's were found, and review of these showed numerous CTR's on currency transactions made by a person whose first name matched that found in the arrested suspect's notebook. These CTR's had been filed for a series of currency transactions in the amount of $9,500 each. The financial institution probably had noted these transactions as suspicious because it appeared that the customer was attempting to structure his deposits to avoid the $10,000 threshold that requires the filing of a CTR.

The FinCEN analyst then selected one of these "suspicious" CTR's for an expanded review. Contained on this CTR were the person's full name, his Social Security number, his date of birth, his complete home address, his driver's license number, and his occupation, which was listed as a partner in a financial company. The name and address of the bank filing the CTR was shown as well as the number of the checking account associated with the deposit.

Next, the FinCEN analyst searched the Treasury Financial database for all CTR's filed on behalf of this individual, including both suspicious and non-suspicious forms. While only about 20 suspicious CTR's had been filed by financial institutions on this individual's transactions, more than 150 CTR's had been filed in total.

A review of the non-suspicious CTR's showed that on numerous occasions the individual had listed his occupation as the owner or manager of the restaurant identified by the telephone number in the suspect's notebook. This confirmed a connection between the two pieces of information originally given to FinCEN—a phone number,

found to be that of the restaurant, and a person's first name, corresponding to the name listed for the restaurant's owner/manager.

Finally, FinCEN's review of other commercial databases produced a business information report on the restaurant, which showed that the owner/manager of the business reported the restaurant's expected annual revenue as far less than the money he had been depositing in the bank, as indicated on the CTR's filed. Search of another database containing public records maintained by the local Tax Assessor's Office relating to real property ownership showed that the owner of this restaurant owned three or four other properties. Public information on these properties, indicating, for example, sales price, date of purchase, and mortgage amount, was retrieved from publicly available databases.

FinCEN's search of various computer databases thus resulted in a comprehensive file of information on this individual, including detailed personal data, banking relationships, checking account numbers, a business report on his restaurant, and details of real property ownership. All of this information was gathered by one analyst in approximately one hour's time at a FinCEN computer terminal. FinCEN then reported it back to the requesting law enforcement agency to support its investigation.

TACTICAL ACCOMPLISHMENTS IN NARCOTICS INVESTIGATIONS

FinCEN's Narcotics and Financial Crimes Divisions, which provide complex, longer-term analytical reports to investigative agencies, completed 715 investigations in fiscal year 1992, involving approximately 16,000 individuals and entities. Several examples of the work done by the Narcotics Division are:

Operation Green Ice was the culmination of a 3 year multi-agency international financial investigation, designed to infiltrate and eliminate a large segment of the money laundering operations of the Cali and Medellin cartels. The investigation led to the arrest of 167 people and the seizure of $54 million in cash and assets.

FinCEN's support to Operation Green Ice came about through our direct support to Operation Cabbage Farm, an FBI, Chicago storefront money laundering operation. During FinCEN analysis of accounts associated with Cabbage Farm, it was determined that the same individuals dealing with undercover agents in San Diego (Operation Green Ice) were also dealing with undercover agents in Chicago and Miami (Operation Cabbage Farm). FinCEN provided general analytical support to both Green Ice and Cabbage Farm by developing information on the targets of the operations.

Operation Polar Cap V was a spin-off operation from previous Polar Cap operations. The overall purpose of Polar Cap V was to investigate five money laundering groups that were operating within the United States. The organizations existed solely to facilitate the movement of narco-dollars from U.S. drug trafficking activities to other countries or to facilitate future drug trafficking activities. Polar Cap in was a multi-agency enforcement effort designed to utilize effectively combined and coordinated resources to disrupt and dismantle the operations of major narcotics trafficking cartels.

FinCEN provided support for Polar Cap in investigations nationwide. Agents and analysts from FinCEN were detailed to Miami, Los Angeles and New York to develop information based on documents seized. As a result of these on-site assignments, FinCEN personnel were instrumental in providing assistance in locating of account information and assets.

FinCEN's support to Polar Cap V has resulted in the documentation of over $500 million in financial activity by over 47 defendants, who have been indicted on drug trafficking and money laundering charges.

The U.S. Postal Inspection Service (USPIS) received investigative and analytic support from FinCEN on a major money laundering investigation. The focus of this effort involved the use of Postal Service money orders by Latin American drug traffickers as a key element in their narcotics money laundering schemes.

The USPIS provided FinCEN with thousands of U.S. bank account printouts that were used in database queries and link analysis. A series of analytic reports were produced identifying targets and the scope of their criminal enterprise. Analysis and link charts given to the USPIS by FinCEN clearly demonstrated the inter-relationship involved in the massive money laundering operations in the States of New York, Texas and Florida.

FinCEN's reports helped provide the USPIS with the probable cause needed for the arrest of two of the major targets of their investigation and the seizure of over $20 million in drug profits connected with this case.

FinCEN's analysis also identified more than $300 million in CTR filings and $54 million in CMIR filings in connection with this operation.

This ongoing program has resulted in several subsequent cases in which FinCEN was able to provide USPIS agents with information used to support their seizure of several million dollars of drug money being sent out of the U.S. via the Express Mail system.

TACTICAL ACCOMPLISHMENTS IN NON-NARCOTICS INVESTIGATIONS

FinCEN allocates approximately 80 percent of its resources in support of narcotics investigations. The majority of non-narcotics work is performed by the Financial Crimes Division. Examples of its work products include:

Major Savings and Loan Investigation.—FinCEN received four requests for assistance in connection with the investigation of a savings and loan institution. The first request, which was responded to in November 1991, was from the Los Angeles U.S. Attorney's Office asking for information about four corporate entities with tacit associations to savings and loan officials. The second report was completed and sent to the FBI in December 1991; the third report, concerning 81 corporations, was provided to the Internal Revenue Service in Los Angeles in February 1992. A fourth request, from the Los Angeles U.S. Attorney's Office, Financial Institution Reform, Recovery and Enforcement Act (FIRREA) Section, requested research on 38 individuals associated with this investigation. FinCEN completed a final report in March 1992.

Major Fuel Excise Tax Project.—The Internal Revenue Service submitted the names of 34 individuals and 22 businesses to FinCEN for research in support of a multi-agency Fuel Excise Tax Project. This national project is being investigated by the IRS, FBI, and Defense Criminal Investigation Service (DCIS) and relates to an industry-wide practice of evading Federal excise taxes on commercial gasoline and diesel fuel sales. FinCEN research revealed that the suspects, who owned truck stops and gasoline stations, were also associated with other businesses and had significant additional property.

FBI Domestic Terrorism Case.—The FBI requested assistance in a Domestic Terrorism Task Force investigation of an organization involved in numerous criminal acts, including bank robbery and extortion. FinCEN research revealed that several of the individuals were subjects of criminal investigations by the U.S. Customs Service, the Drug Enforcement Administration, and the Bureau of Alcohol, Tobacco and Firearms. Commercial database real estate records revealed ownership of numerous properties by the organization. Financial database records revealed numerous CTR's identifying bank accounts and additional individuals associated with the group. Finally, IRS Form 8300 records revealed the cash purchases of several expensive vehicles.

Agriculture Case.—Research for the U.S. Department of Agriculture Inspector General resulted in the exposure of $3.8 million in CTR activity relating to an investigation of theft from programs receiving Federal funds. The research found substantial cash deposits into businesses controlled by the suspects.

FinCEN Connected FBI to USCS, ATF, and DEA in Organized Crime Case.—The FBI recently requested FinCEN's assistance in a RICO conspiracy investigation involving an illegal gambling business conducted by individuals in the Midwest. FinCEN's research has revealed that the subjects are linked to organized crime and are also under investigation by the U.S. Customs Service, ATF, and DEA.

FinCEN Issued First Intelligence Report to Russia and Bulgaria.—FinCEN completed an Intelligence Report in support of a request for assistance from the Department of Economic Crimes at the Ministry of the Interior of the Russian Federation. This report was distributed to the Department of Justice, Office of International Affairs, for further dissemination to the Russian Ministry of the Interior. Only intelligence obtained from commercial databases was included in the report.

Also, FinCEN issued an Intelligence Report in support of a request for assistance from the Government of Bulgaria, Economic Program Coordinator. This report was distributed to the Department of Justice, Office of International Affairs, for further dissemination to the Government of Bulgaria. The Office of International Affairs is coordinating with Bulgarian authorities an investigation by the U.S. Marshals Service of two U.S. fugitives. As with the Russian report, only intelligence obtained from commercial databases was included in FinCEN's report.

CRIMINAL REFERRAL DATABASE

One of the major database initiatives that FinCEN is undertaking is the newly established Criminal Referral Database, which is scheduled to be operational this summer. FinCEN entered into an agreement with the six Federal financial, regulatory and receivership agencies to build a database to serve as the central repository for information from all their criminal referral forms.

These six agencies are: the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, the Federal Deposit Insurance Corporation, the Resolution Trust Corporation, and the National Credit Union Administration. They each require financial institutions, or their examiners and investigators, to file criminal referral forms to report possible criminal activity, such as savings and loan fraud, embezzlement, or money laundering.

Therefore, FinCEN's maintenance of the Criminal Referral Database, officially known as the Financial Institution Regulatory Agency Criminal Referral Enforcement System (FIRACRES), will assist these six regulatory agencies in tracking criminal referrals and coordinating their regulatory enforcement activities. It will, for the first time, provide the capability to link investigations conducted by multiple regulatory and law enforcement agencies through the cross analysis of the criminal referral forms.

STRATEGIC SUPPORT

FinCEN's Office of Strategic Analysis identifies emerging trends, patterns, and issues related to the proceeds of illicit activities. It examines and produces strategic intelligence, describing the methods used to launder money, the techniques and mechanisms used to facilitate these methods, and the schemes devised to launder money through the techniques and mechanisms identified.

The work products generated by the Office of Strategic Analysis include quarterly publications, intelligence research reports, and ad hoc reports in response to agency requests.

QUARTERLY PUBLICATIONS: FINCEN UPDATES AND TRENDS

FinCEN's quarterly publications, known as FinCEN UPDATES and TRENDS, contain articles and statistical summaries concerning financial crime. Articles in these publications outline specific topics within the realm of money laundering and attempt to assist the law enforcement, regulatory and banking communities in the fight against financial crime.

UPDATES is an "Official Use Only" publication for use by the law enforcement community. TRENDS is sent to the regulatory and banking communities. FinCEN currently publishes and distributes 60,000 copies of TRENDS and 20,000 copies of UPDATES a year (15,000 TRENDS and 5,000 UPDATES per quarter) for a total of 80,000 publications per year.

INTELLIGENCE RESEARCH REPORTS

FinCEN's Office of Strategic Analysis also prepares Intelligence Research Reports to provide the law enforcement community with detailed discussions of, and insights into, specific areas of financial crime. For example, the FinCEN Reference Series is aimed at providing basic information about financial crimes and money laundering. The FinCEN Research and Issue Series provides in-depth analysis of specific financial crime or money laundering topics. Approximately 2,000 to 5,000 copies of each Intelligence Research Report are printed and distributed to government, private, domestic, and foreign law enforcement and regulatory agencies.

INTERAGENCY REQUESTS FOR REPORTS

FinCEN prepares interagency reports for Congress, State law enforcement agencies, the Financial Action Task Force (FATF), Interpol and Federal enforcement and regulatory agencies, including the Federal Bureau of Investigation, Internal Revenue Service, Drug Enforcement Administration, U.S. Customs Service and the Federal Reserve.

STRATEGIC ACCOMPLISHMENTS

In 1992, the Office of Strategic Analysis published a total of 85 reports, including three each of UPDATES and TRENDS. In addition, it also prepared presentation and training material for 22 conferences and seminars. A substantial amount of work has been, and is being, done to support the Financial Action Task Force initiatives. Specific examples of FinCEN's strategic work products include:

ONDCP Request.—In response to a March 1992 request from the Office of National Drug Control Policy (ONDCP), FinCEN's Office of Strategic Analysis conducted a study and prepared a report, entitled "An Assessment of Narcotics Related Money Laundering". Disseminated to ONDCP in August 1992, this report focused on money laundering associated with the Colombian cocaine cartels, discussing spe-

cific characteristics of cartel-related money laundering organizations and the chronology of methods used, and examining U.S. Government efforts to combat this threat.

Threat Assessments.—During late fiscal year 1992, FinCEN completed work on two major threat assessments; one on the metropolitan New York City area and a second on the entire Southwest U. S. border. FinCEN was tasked by the Deputy Assistant Secretary (Enforcement), Treasury Department, to conduct these studies of the specific money laundering threats in those areas in order to assist Treasury in evaluating the potential need for allocation of additional resources to establish Interagency Financial Task Forces there. The assessments are broad and complete compilations and analyses of data from law enforcement and regulatory sources, demographic data, statistical data of criminal activity, and Federal Reserve Bank cash flow data. The studies form a—baseline, or reference point, from which trends of activity can be identified and analyzed with respect to the impact of law enforcement initiatives undertaken in particular areas.

Washington State Project.—In early 1992, pursuant to a request from the Attorney General from the State of Washington, FinCEN completed an in-depth study of currency movements within the State. The objective of the study was to support the need for money laundering legislation within Washington State. In March 1992, based largely on the work performed by FinCEN, the Washington State legislature unanimously passed a comprehensive anti-money laundering statute.

EVALUATION OF STRATEGIC WORK PRODUCTS

During fiscal year 1992, FinCEN received 4,500 requests from law enforcement and regulatory agency personnel to be placed on the distribution list for FinCEN's UPDATES and TRENDS publications, which provides FinCEN with some indication of how popular these publications are. As for FinCEN's other strategic products, the vast majority of feedback forms and verbal comments received indicate that FinCEN's reports are of additional value in confirming or augmenting the recipient's information.

Several feedback forms also have indicated that FinCEN strategic reports are used for instructional purposes or for the orientation and briefing of agents and analysts. Sometimes FinCEN receives multiple feedback forms for a single report, indicating either that the report contributed to a resource or personnel allocation decision by management, or that the report contributed to a decision to create a special program and/or alter existing anti-money laundering programs. The feedback forms generally express positive reactions. For example, FinCEN's strategic products have been highly praised in assisting States to enact anti-money laundering legislation.

FinCEN's financial strategic analysis capabilities are becoming well established. It is clear, however, that the enormously complex and dynamic nature of the financial system demands that FinCEN constantly upgrade both its staff expertise and the computer technology it utilizes to stay abreast of criminal innovation in moving and laundering illicit funds worldwide.

COMPUTER CAPABILITIES

FinCEN's Office of Systems Integration handles its computer operations and development efforts.

INTELLIGENT TARGETING

The effectiveness of targeting criminal activity through traditional analysis of cash transactions reported under the Bank Secrecy Act (BSA) is severely limited by the large amount of data and the human resources required to analyze it. The number of large cash transactions taking place each day in the U.S. is enormous; few individual identifiers are attached to these money transfers; and monetary assets are easily hidden and commingled. Using Title 31, Bank Secrecy Act (BSA) and other valuable data available to FinCEN, the manual examination of a moderate to complicated case—involving, for example, 20 companies and 50 individuals—could easily take an analyst employing traditional methods several months to complete properly.

In the mid-1980's, the U.S. Customs Service developed the Customs Artificial Intelligence System (CAIS) to enhance productivity in the analysis of the BSA data. When it was established in 1990, FinCEN acquired CAIS as part of its basic operating capability. However, because CAIS was programmed to run on computers which are now obsolete, and was not designed to handle the rapid increases in the filing rate of BSA related reports, FinCEN began developing a replacement system in 1991.

Scheduled for delivery in the second quarter of fiscal year 1993, the first full release of FinCEN's Intelligent Targeting System effectively re-engineers and modernizes functionalities attributed to CAIS. The FinCEN Intelligent Targeting System applies Artificial Intelligence (AI) and other advanced information processing technologies to support the proactive targeting of financial crimes by analyzing BSA data.

TEXT-BASED RETRIEVAL AND INTELLIGENT DOCUMENT HANDLING

Another FinCEN effort is underway to improve computer capacity for text-based retrieval. The purpose of FinCEN's planned Intelligent Document Handling (IDH) Initiative is to enhance the analysis of various documents relevant to the investigation of financial and drug related crimes, including affidavits, transcripts, or other documents seized in the course of particular investigations. Various document processing capabilities are required to support analysis of such documents.

The Intelligent Document Handling (IDH) testbed, funded by ONDCP, will serve as a proof of concept, and will implement basic document processing capabilities. The testbed configuration will be the basic operational system which meets essential end-to-end document processing requirements by integrating commercially available Components.

The "baseline" will provide the following capabilities, which are essential to effective document analysis: Scan printed or typed documents; perform limited document characterization and zoning to facilitate transformation of text information into machine usable form; recognize text via optical character recognition (OCR) and intelligent character recognition (ICR); extract and associate key information such as subject names, organizational names, geographical references, roles and activities of subjects mentioned in the documents in English and Spanish, initially; store, associate, and retrieve text data and optical images of the original documents; and provide limited connectivity to other FinCEN information resources.

In the end, the IDH initiative is intended to be a stand-alone system that can support FinCEN's investigations and analysis.

ARTIFICIAL INTELLIGENCE TARGETING EXAMPLE

The following is an example of proactive tactical targeting by FinCEN, which was made possible by FinCEN's enhanced computer capability.

FinCEN responded to a request from Federal authorities in a large western city for possible targets involved in currency or other financial crimes. The initial report identified approximately 25 to 30 potential targets. After field evaluation, the agents requested follow-up information on seven entities. Two separate joint agency investigations involving the U.S. Customs Service, FBI, IRS and DEA have been initiated as a result of the information provided by FinCEN. One of the targets FinCEN identified is a money launderer for a major narcotics distribution ring. Federal agents recently made a large seizure of cocaine from this group. Additional law enforcement authorities are now participating in this newly expanded investigation.

REQUEST FOR FISCAL YEAR 1994 PROGRAM CHANGES AND INITIATIVES

FinCEN's requested $2.6 million for fiscal year 1994 program changes and initiatives (as described below) will enable its continued and expanded use of commercial information systems that provide data to the law enforcement community, and will allow vital enhancements to its undersized computer network.

REPROGRAMMING OF $2.8 MILLION FROM THE OFFICE OF NATIONAL DRUG CONTROL POLICY'S SPECIAL FORFEITURE FUND

Also, FinCEN is proposing in fiscal year 1994 a reprogramming of $2.8 million, which was included in its fiscal year 1993 authorized budget level as a transfer from the Office of National Drug Control Policy's Special Forfeiture Fund intended to continue development of FinCEN's massively parallel processing (MPP) system. Because additional resources for MPP are not currently available, these funds will not be obligated in fiscal year 1993, but are proposed to be reprogrammed into fiscal year 1994 to offset a portion of the annualization of rent ($0.2 million), restoration of items delayed in fiscal year 1993 to cover increased rent ($0.8 million), commercial information systems ($0.5 million), and the information resources infrastructure and artificial intelligence initiative ($1.3 million), described below.

RESTORATION OF ITEMS DELAYED TO COVER RENT IN FISCAL YEAR 1993——$0.8 MILLION

In fiscal year 1993, FinCEN is moving to larger quarters, and will incur both moving costs and increased rental charges. As a result, $849,000 had to be reprogrammed to fund these relocation expenses. Therefore, the fiscal year 1994 budget request includes $849,000 to restore multiple cuts taken from FinCEN's base in fiscal year 1993.

Restoration of funds reallocated to pay for FinCEN's move to another building in fiscal year 1993 is requested for ADP maintenance, PCS moves, training, travel, and other items, which are vital to FinCEN's operation.

Additionally, $0.2 million will be used to offset a portion of the annualization of the rent in fiscal year 1994.

COMMERCIAL INFORMATION SYSTEMS—$0.5 MILLION

In order to maintain the current level of service and to cover the costs of increased requests for service, which FinCEN provides to Federal, State and local law enforcement agencies, FinCEN is requesting an increase of $500,000 to be expended for use of commercial databases.

As the law enforcement community has recognized the value of FinCEN's service, there has been a significant expansion in the scope and frequency of its utilization of FinCEN and a corresponding increase in FinCEN's expenditures for commercial database services. However, FinCEN's investment of these funds will result in a significant savings by governmental units at the Federal, State and local levels because it saves them having to purchase their own commercial information systems. Also, because FinCEN is one of the major customers of commercial database vendors, it can more effectively leverage its purchasing power. Since FinCEN makes such high volume purchases, it commands flat rate contract terms that provide for unlimited usage of a specified number of concurrent commercial database lines at a fixed cost, regardless of the number of queries conducted. FinCEN derives great benefit from these terms because it operates 17 hours per work day and maximizes usage. Therefore, for the law enforcement community, FinCEN is a cost-effective, comprehensive source for access to, and expertise in analysis of, commercial database systems.

INFORMATION RESOURCES INFRASTRUCTURE/ARTIFICIAL INTELLIGENCE (AI)—$1.3 MILLION

FinCEN's current computer network is undersized. The network, as initially designed, had no inherent network management capabilities. Hardware and software have been added, but the computer network needs hardware systems, applications software, systems operation and maintenance for analytical applications to support FinCEN's Management Information System and artificial intelligence. FinCEN's information technology architecture needs to be modified to meet its growth in both mission requirements and staff.

Of FinCEN's $1.3 million requested to fund this initiative, a total of $510,000 is for computer hardware. The remaining $753,000 will be to fund network application software, maintenance, and applications development support.

COMPLIANCE WITH EXECUTIVE ORDERS SAVES $0.5 MILLION

FinCEN will achieve $0.3 million in administrative overhead reductions in fiscal year 1994 in response to Executive Order #12837, which requires that agencies reduce administrative costs by not less than fourteen percent between 1994 and 1997. This is to be accomplished by annual reductions of 3 percent (5 percent in 1997) to the fiscal year 1993 amount for administrative costs, adjusted for inflation.

A savings of $0.2 million will result from FinCEN's fiscal year 1994 adjustment in response to Executive Order #12839, requiring that each executive department with over 100 employees achieve at least a 4 percent reduction in positions (measured on an FTE basis), in decrements of 1 percent in fiscal year 1993, 1.5 percent in fiscal year 1994, and 1.5 percent in fiscal year 1995.

The Treasury Department will be reviewing the impact of Executive Order #12839 as it affects bureaus; however, should across-the-board Treasury FTE reductions be taken, FinCEN would lose 2 FTE, along with their associated authorized positions, each year through fiscal year 1995. This equates to a total for FinCEN of 6 FTE and 6 authorized positions lost through attrition.

BUDGET AS INVESTMENT

FinCEN's fiscal year 1994 budget request, with the adjustments as outlined above, represents a balanced program to support the growing requests for our as-

sistance from the law enforcement community at the State and local as well as Federal and international levels. With this modest investment of resources, FinCEN will find assets far in excess of its budget, identify numerous hidden links among individuals and businesses engaged in illicit financial activity, and continue to identify and report on current and emerging trends and patterns in money laundering.

CONCLUSION

We believe that FinCEN is successfully accomplishing its mission. FinCEN has proven itself an effective weapon in fighting drug money laundering and other financial crimes. Continued and increased support will help ensure FinCEN's development into an even more efficient and effective operation. In these tough economic times, continued support of FinCEN's mission to use technology and multi-agency analytical expertise will also enable law enforcement agencies—and ultimately the public—to leverage scarce resources.

STATEMENT OF JOHN P. SIMPSON

Mr. Chairman and Members of the Subcommittee, it is a pleasure to appear before you today to discuss the fiscal year 1994 budgetary requirements of the Financial Crimes Enforcement Network (FinCEN). With me today are Brian M. Bruh, Director of FinCEN, and members of his staff.

Our fiscal year 1994 request is $18,280,000 and 147 full-time equivalent (FTE) positions. This represents a net reduction of $2,962,000 and 2 FTE's when compared with the fiscal year 1993 authorized level. The overall reduction includes the elimination of the Office of National Drug Control Policy (ONDCP) transfer of $2,800,000 and other one-time costs totaling $695,000 and 2 FTE's. The FTE reduction responds to Executive Order #12839, which requires each department with over 100 employees to achieve at least a 4 percent reduction by fiscal year 1995. This reduction is offset by program increases totaling $2,612,000; and an increase of $721,000 to maintain current levels of operation.

FinCEN's Director Brian Bruh will be providing you and Members of your Subcommittee with the specifics of FinCEN's programs. However, I would like to take this opportunity to give you an overview of the Financial Crimes Enforcement Network from the Treasury Department's perspective.

FinCEN is a Treasury Department law enforcement organization, which was created by Treasury Order in April 1990, to support all law enforcement and regulatory agencies in the investigation and prosecution of money laundering and other financial crimes. Specifically, FinCEN was mandated to be the central source for systematic identification, collation, and analysis of law enforcement and public data sources which, when linked together, could point to criminal financial activity that would otherwise go undetected.

Last year, FinCEN supported more than 3,700 investigations being conducted by other agencies, including State and local law enforcement organizations. The establishment of FinCEN to provide this sort of support to other law enforcement agencies allows those other agencies to receive high-quality financial records analysis at a cost well below that which they would bear if each of them attempted to undertake such work on their own.

Currently, FinCEN has about 200 employees, including 39 special agents on long-term details of two or more years from 14 Federal agencies, as well as intelligence analysts, and computer specialists. These employees are engaged in intelligence analysis and computer analysis of reports of financial transactions in support of financial investigations of other agencies. FinCEN's workload figures have shown a steady increase, which reflects a recognition by investigative agencies of the usefulness of FinCEN's work.

We at Treasury are all very proud of the men and women of FinCEN for their contributions in fighting drug money laundering and other financial crimes.

With your concurrence, Mr. Chairman, I ask that Director Bruh present his prepared statement, and then we will be pleased to answer any questions that you or other Members of the Subcommittee may have.

Thank you.

BIOGRAPHICAL SKETCH

JOSHUA L. STEINER

Joshua L. Steiner is the Special Assistant to the Deputy Secretary of the Treasury and has served in that capacity since the beginning of the Executive Branch transition.

Prior to joining the Treasury, Mr. Steiner was Executive Assistant to the President of the New York Public Library. In that capacity he managed budget policy and aspects of strategic and financial planning, and represented the President and Chairman.

Mr. Steiner previously served as a consultant to the National Democratic Institute for International Affairs (NDI) and in 1988, he was on the Issues Staff of the Dukakis for President campaign.

Mr. Steiner was born in Washington, D.C. He received a bachelor of arts degree from Yale University in 1987, and a Master of Studies degree (with special commendation) from University College of Oxford University in 1990.

MASSIVELY PARALLEL PROCESSING

Senator DECONCINI. In fiscal year 1993, FinCEN received $2.8 million from the office of ONDCP forfeiture fund for development of the massively parallel processing initiative. We stated last year—and I am still not quite sure exactly what the initiative is—you made it very clear to us last year that it was very important and a priority. You stated that the MPP is critical to FinCEN's ability to analyze completely the voluminous Bank Secrecy Act data to its fullest capacity.

Your budget documents for fiscal year 1994 state that because additional resources for MPP are not currently available, these funds will not be obligated in fiscal year 1994, but are proposed to be reprogrammed in the fiscal year 1994 to offset other costs.

Mr. Bruh, you can imagine that it causes us great difficulty when an agency testifies in support so strongly as you did last year—frankly, the testimony of you and your staff later convinced me to go ahead and put that money in. I really wasn't ready to do it last year. Then the agency turns around and does something else with it. That kind of leaves a credibility gap. Maybe that is due to a change in administration or something, but it leaves us with a bad taste. I just have to express to you that I am sorry you didn't go ahead with this program, unless you have come to the conclusion that the program was a mistake.

I can understand that because I make mistakes every day of my life. Perhaps that is what happened here. Maybe it is going to cost twice as much as what you estimated. I would like you to have a chance on the record to explain why we didn't go ahead with it.

Mr. BRUH. The program is not a mistake. It is an important initiative. However, we need to reprogram the money for things that are more urgent right now.

Senator DECONCINI. Such as?

Mr. BRUH. Such as, we need to make up for the funds that we had to expend for our expected move in July 1993, which resulted in a shortfall of about $849,000. Also, we need funds for the commercial data bases, which are extremely important, Mr. Chairman, in terms of providing information that we use in supporting the investigations that we have.

Senator DECONCINI. How much was that?

Mr. BRUH. That was $500,000 for commercial data bases.

Also $1.272 million is needed for the infrastructure of our computer system. The computer system now is about 3 years old. We need some maintenance and updates on it. We also need some ability to go ahead with our artificial intelligence program as well as with text-based retrieval, which are all very important items for us.

Senator DECONCINI. None of the $2.8 million will be used in fiscal year 1993 for the MPP?

Mr. BRUH. No; FinCEN will have the $2.8 million unobligated at the end of fiscal year 1993.

I would like to point out one thing, Mr. Chairman. Both of the programs that I just mentioned—the text-based retrieval as well as the artificial intelligence—will ultimately tie in, in different ways, to the MPP system, should we be able to develop such a system.

Senator DECONCINI. Do you think you are ever going to do it? Seriously, unless we just force-feed it, it is not going to happen, is it?

Mr. BRUH. Well, it's not scheduled for the next year or so.

Senator DECONCINI. What about fiscal year 1995?

Mr. BRUH. I don't know.

Senator DECONCINI. Is it on Treasury's radar screen? Is there anybody down there talking about it besides you?

Mr. BRUH. In fairness, I think fiscal year 1995 is coming up right now and it will give us an opportunity to talk about a number of things.

REDUCTION IN ADMINISTRATIVE EXPENSES

Senator DECONCINI. We noticed that your budget includes a reduction of $319,000 to meet the President's Executive order to reduce administrative expenses by 3 percent. How do you plan to meet that goal and what specific activities are going to have to be cut?

Mr. BRUH. We are basically cutting some funding in a number of activities. We are just taking a little money from different proposed expenditures, or anticipated expenditures, so as not to hurt any particular effort very much, if at all. I think we will be able to do that satisfactorily.

MEASURES OF SUCCESS

Senator DECONCINI. Mr. Bruh, the committee has on numerous occasions asked questions about the effectiveness of FinCEN and every year you have provided statistics on the number of queries you process, the number of cases you investigate, and generally work those factors that you say show FinCEN's effectiveness or success. These statistics are important, but as Harvard's Kennedy School of Government pointed out in its July 1990 report, FinCEN will need to produce credible measures of its impact as opposed to simple measures of its activities.

The latter is easy to measure by reference to number of inquiries, but to measure the impact of FinCEN you need to monitor and record items such as the number of arrests, seizures, and forfeitures attributed at least in part to their intelligence activities. Does your agency currently track the number of arrests and successful prosecutions, for instance, that are attributed to this intelligence work?

Mr. BRUH. We do a certain amount of that, Mr. Chairman, but it is almost an impossible thing to do. The reason is that there is so much spinoff. We provide information on an investigation—for example, there are some very prominent investigations going on right now to which I am proud to say we are providing a great deal of help. The feedback to us is that our help has provided a very significant contribution. However, the investigation could go on for a year or longer. The information that we provide today may—and it has in the past—identify targets that law enforcement did not know about. We investigate those targets further and provide ongoing help.

It is an extremely difficult thing to pinpoint our contribution to ongoing investigations and spinoffs from those investigations.

Senator DECONCINI. There is no way to track it?

Mr. BRUH. Not that I am aware of.

However, I do have many examples where the agencies have contacted us in writing and have told us what we were responsible for doing certain things. It is just that I don't know if it is meaningful to sum that positive feedback all up. I think the proof of our impact is that more and more agencies are coming to us for help. We provided support last year to over 200 law enforcement agencies and foreign governments. We were the catalyst for States adopting new legislation.

Senator DECONCINI. Can you provide us some of those cases that you were directly involved in that are already completed or under prosecution if not completed?

Mr. BRUH. Absolutely, sir.

[The information follows:]

CASE EXAMPLES

My written statement notes three major narcotics cases in which FinCEN made significant contributions.

Operation Clean Hands.—In this investigation of money laundering through the use of Postal Service money orders, FinCEN assisted the U.S. Postal Inspection Service with the analysis of thousands of bank account printouts. FinCEN's analysis helped provide the Postal Inspectors with the probable cause needed for the arrest of two of the major targets of their investigation and the seizure of over $20 million in drug profits, as well as leads for subsequent, ongoing investigations. In his written comments to FinCEN, the Chief Postal Inspector noted that FinCEN's "reports helped to identify targets for this investigation and demonstrated the scope of this criminal enterprise. [FinCEN's] financial analysis and link charts demonstrated clearly the inter-relationships between numerous significant individuals and entities involved in this massive money laundering operation."

Operation Polar Cap V.—In this spin-off from previous Polar Cap operations, five money laundering groups operating nationwide were subjected to multi-agency law enforcement scrutiny. FinCEN support to Polar Cap V included detailing agents and analysts to Miami, Los Angeles and New York; over $500 million in illicit financial activity has been documented and 47 defendants have been indicted on drug trafficking and money laundering charges.

Operation Green Ice.—In this three year, multi-agency, international financial investigation, FinCEN's analytical support linked previously separate undercover operations and led to the arrest of 167 people and the seizure of $54 million in cash and assets.

The following additional examples give a sense of the broader picture that emerges from a survey of the "customer feedback" forms FinCEN has received.

U.S. v. *Bellarosa et al.,* Crim. No. 92–517-A (E.D.Va.): In this case, the Justice Department's Organized Crime and Racketeering Section has repeatedly praised FinCEN analysts for work in piecing together "financial and business backgrounds of the targets" and "providing the [multi-agency] investigation with a full and complete intelligence profile of the extent of the targets' domestic and international ac-

tivities and contacts." FinCEN's work in this case was cited as important to the ultimate receipt of guilty pleas by six defendants—prior to indictment—to charges of narcotics importation, trafficking, and money laundering.

A special agent working at FinCEN was been cited by the Drug Enforcement Administration for work, including grand jury testimony, involving financial and historical documents relating to the indictment of an alleged heroin kingpin; analysis of the records had previously been attempted by several other agencies.

FinCEN was cited by a U.S. Attorney in the Southwest for a report "analyzing hundreds of wire transfers between various banks" relating to transactions by a major Latin American money laundering organization.

FinCEN has been cited by a special Department of Justice task force for its work analyzing financial transactions in a major public corruption inquiry.

Recently, in connection with an ongoing investigation, FinCEN has been cited for its work in the prosecution of a heroin trafficking organization. The letter FinCEN received in May 1993 is worth quoting at length: "The FinCEN [staff working on the case] initially turned their many talents [to] compilation of an exhaustive listing of financial transactions relating to the money laundering by the heroin cartel, then, when the defendants realized the insurmountability of the evidence, the FinCEN team assisted in the comprehensive debriefing of each defendant [in order to provide a basis] for the next round of indictments in this case."

A more general review of sample feedback data received by FinCEN's Office of Tactical Support reveals seven citations from the Customs Service, ten from the Criminal Investigations Division of the Internal Revenue Service, seven from the FBI, three from the Postal Inspection Service, and citations from a number of United States Attorneys Offices, the Office of the Inspector General of the Department of Agriculture (for FinCEN's support on an embezzlement of government funds case), Treasury's Office of Foreign Assets Control, and law enforcement authorities in Texas, New York, Virginia, the District of Columbia, California, Colorado, Missouri, Illinois, Ohio, and Oregon. In total, FinCEN has received in excess of 2,000 feedback forms, which have been universally positive.

I know your question concentrated on tactical products; however, FinCEN has also received similar praise for its strategic analytical products, which ultimately help agencies "to make better cases". The following examples illustrate the range of strategic reports produced by FinCEN, and the variety of ways in which they are used.

Project Texas.—In response to a request from the Texas Attorney General, FinCEN conducted a study of the money laundering threat in Texas. The study included analyses of interviews of various law enforcement and regulatory agency personnel involved in the enforcement and investigation of money laundering, narcotics trafficking and currency violations in Texas; currency flow data from the El Paso, San Antonio, Houston and Dallas Federal Reserve offices, and CMIR and CTR data filed by Texas financial institutions. Following the issuance of FinCEN's study—which indicated that money laundering is a serious law enforcement problem throughout Texas—the Texas Senate Criminal Justice Committee voted to approve an anti-money laundering bill.

Project Washington.—Similar to project Texas, FinCEN's analysis of the money laundering threat in the State of Washington led to the adoption of anti-money laundering legislation in that state, effective July, 1992.

Operation Buckstop.—At the request of the U.S. Customs Service, FinCEN has provided so-called "Preliminary Alert" reports—containing analysis of law enforcement and financial database information—to point out businesses and individuals which may be engaged in smuggling. These reports, initially prepared for Customs Headquarters and Customs Miami, have been widely disseminated and have received outstanding feedback and appreciation from the Customs Service for their strategic value in assisting the Customs Service to focus their inspection efforts. The reports have also a provided leads in a related major investigation being conducted by the FBI, Washington D.C. field office.

Southwest Border Threat Assessment.—At the request of the Treasury's Deputy Assistant Secretary (Enforcement), FinCEN conducted a study of the money laundering and narcotics trafficking threats existing along the Southwest Border. The assessment has been used to assist in the allocation of resources for establishing interagency Financial Task Forces along the Southwest Border.

MEMORANDUMS OF UNDERSTANDING

Senator DECONCINI. Mr. Bruh, during fiscal year 1993, we talked a lot about the memorandum of understanding with a number of

Federal law enforcement agencies. You tell us that you have 200 relations with different law enforcement agencies. How many MOU's do you have? Is each one an MOU?

Mr. BRUH. Yes; we have MOU's with many law enforcement agencies.

Senator DECONCINI. Before you do anything, you enter into an MOU with them?

Mr. BRUH. No; we don't have MOU's with all the agencies we work with. We do have MOU's with certain Federal law enforcement agencies. Also, right now we have signed 47 memorandums with 46 States. Basically, the 13,500 State and local agencies funnel their requests to FinCEN through specific points of contact within those State agencies with whom we have signed the MOU's.

In addition to that, we have one foreign MOU with TRACFIN, France's version of FinCEN. We also have a couple of other MOU's that are pending with foreign countries.

AGENCY ASSISTANCE

Senator DECONCINI. Do they provide any financial assistance?

Mr. BRUH. The answer is yes. It comes in different forms, however. For example, the Customs Service, to which we are extremely grateful, has 20 Customs special agents on nonreimbursable detail to FinCEN. The IRS has nine special agents on nonreimbursable detail. In fact, we have a total of 45 nonreimbursable detailees which include people from the Justice Department as well as nonlaw enforcement people, such as from the Federal Reserve Bank.

Senator DECONCINI. They assign people?

Mr. BRUH. They assign people on a long-term basis.

Senator DECONCINI. Do they stay for a year or more?

Mr. BRUH. The shortest anyone stays is 1 year.

Senator DECONCINI. Are they subject to your supervision?

Mr. BRUH. Yes, they are.

STATUS OF AGREEMENTS WITH IRS AND FBI

Senator DECONCINI. Has any progress been made to reach an agreement with the FBI or IRS?

Mr. BRUH. Progress has been made with the Internal Revenue Service. I think we're about ready to iron out the final legal issues that were raised by the Internal Revenue Service. We are still working with the Federal Bureau of Investigation.

Senator DECONCINI. You have not been able to resolve that?

Mr. BRUH. We are very close.

Senator DECONCINI. The last I heard anything about it, Director Sessions was going to call you. Is that true?

Mr. BRUH. Yes, he did.

Senator DECONCINI. And he said that he was going to work something out, yet nothing was worked out. Why not?

Mr. BRUH. It is basically that we have some hurdles to overcome with his staff. In fairness to Director Sessions, his organization is very complicated with many levels of management. There is a certain comfort level that people at different stages in the chain of

command have to achieve before a formal agreement on information sharing can be reached.

I think that overall our relationship with the FBI is good, but we still have not achieved an MOU.

Senator DECONCINI. Do you think it is going to happen or not? Are you ready to put up the white flag and surrender?

Mr. BRUH. I don't put up any white flags, Mr. Chairman. We keep plugging away.

AGENCY COOPERATION

Senator DECONCINI. Are there any other agencies which you feel are not cooperating?

Mr. BRUH. No; actually, our cooperation with all the agencies is good. The MOU's would make things easier in some ways, but it shouldn't be construed that because we don't have an MOU that we're not cooperating with one another, because we certainly are. In fact, about 12 percent of all the requests we receive come from the FBI.

Senator DECONCINI. Do they share a data base with you?

Mr. BRUH. They do not share a data base with us.

Senator DECONCINI. Do the other ones? Is that part of the MOU?

Mr. BRUH. That is part of the MOU. Access to data bases is the heart of the MOU.

Senator DECONCINI. Who is the person primarily in charge of the FBI that you deal with?

Mr. BRUH. I deal with Director Sessions.

Senator DECONCINI. You deal directly with him?

Mr. BRUH. Yes; at times I deal with his staff.

Senator DECONCINI. Do you deal with Floyd Clark?

Mr. BRUH. Yes, I do.

COOPERATION OF TREASURY BUREAUS

Mr. STEINER. Mr. Chairman, if I might interject for one moment, some Treasury bureaus have not reached MOU's with FinCEN.

Senator DECONCINI. Who hasn't? I thought you said IRS had.

Mr. BRUH. We have not yet signed an MOU with the IRS.

In fairness to these agencies, an MOU is an extremely difficult concept. I appreciate it, having been on the other side—reluctant to share sensitive data with other agencies—for most of my career.

Senator DECONCINI. If this is a good idea, they ought to get on board. If it isn't, then you ought to forget about it. I had reservations about it when it was brought to me. I didn't think these people would cooperate.

It is a shame because I think you have the capacity and you have developed a good program. It is a shame not to get the major agencies into it. You can negotiate and do some cases anyway, but if we're going to be successful here, we have to have some cooperation.

Mr. BRUH. As Mr. Steiner said, I think with his assistance and that of the Assistant Secretary for Enforcement we are going to be able to succeed.

Senator DECONCINI. I am going to talk to Assistant Secretary Noble about it. But as far as I'm concerned, we're going to keep

funding this. I want to see them sign up and be a part of it or do something else. I am prepared to encourage him to do that.

STATUS OF MOU'S

Do you get any resistance from OMB? Do they use that at all as a problem?

Mr. BRUH. No.

Senator DECONCINI. Would you give me a breakdown of with what agencies you have MOU's and what agencies you are now negotiating with, including the FBI, the IRS, and all of them, and who in the agency you have discussed it with?

Mr. BRUH. Absolutely.

[The information follows:]

FINCEN'S AGENCY MOU'S

FinCEN currently has MOU's or other types of agreements relative to data base access with the following entities:

1. Postal Inspection Service
2. Interpol, U.S. National Central Bureau
3. Department of Justice—OCDETF
4. U.S. Customs Service
5. National Association of Securities Dealers (through SEC)
6. Bureau of Alcohol, Tobacco & Firearms
7. Drug Enforcement Administration
8. Marshals Service
9. Department of Agriculture, Economic Research Service
10. Federal Reserve Board
11. Immigration and Naturalization Service

MOU negotiations are still ongoing with the following agencies. Included with the name of the agency is the status of the negotiations:

Secret Service.—Final wording of the MOU being worked out. Agreement reached as to nature of access.

Bureau of Public Debt.—Final wording of MOU being worked out. Agreement reached as to nature of access.

Securities and Exchange Commission.—Nature of access and MOU still being negotiated.

Department of Agriculture, Food & Nutrition Service.—MOU negotiations stalled due to Agriculture's legal interpretation of non-disclosure provisions in legislation establishing Food Stamp program.

Department of Defense, Defense Investigative Service.—MOU negotiations in progress.

Internal Revenue Service (Criminal Investigation).—Negotiations regarding nature of access and wording of MOU are almost finalized.

Federal Bureau of Investigation.—FinCEN recently received a letter from the FBI rejecting our information sharing proposals and denying installation of a terminal at FinCEN to facilitate data base access.

Although FBI agents in the field have expressed high praise for FinCEN's work, and the FBI is one of FinCEN's four largest customers, FinCEN has attempted for the past three years without success to make arrangements for formal information sharing with the FBI. Recently, FinCEN's Director received a letter from the Assistant Director of the FBI for Criminal Investigation rejecting FinCEN's information sharing proposals and stating the FBI's belief that any sharing of FBI information with FinCEN should be undertaken between the National Drug Intelligence Center (the "NDIC") and FinCEN. FinCEN was disappointed at this response, which not only negates our prior negotiations with the FBI, but also confuses the roles of FinCEN and the NDIC. Nevertheless, FinCEN is continuing to make efforts to have the FBI once again favorably look at our information sharing proposals.

Department of State, Bureau of Consular Affairs.—FinCEN is drafting a letter to new personnel in the Bureau of Consular Affairs in an attempt to revive the MOU negotiation process.

Mr. BRUH. I would like to add one statement to that.

I want the MOU process to succeed probably more than any one person in the world. Please, don't be discouraged.

Senator DECONCINI. I understand that you do and I do, too. I have been in law enforcement for years before I came here and it is always these turf battles that are most detrimental to the public confidence. I am appreciative of those things.

But if the Director of the FBI and the Director of the IRS and Assistant Secretary for Law Enforcement and the Director of the Secret Service can't get their act together, it is an embarrassment. It is not your fault unless you are being recalcitrant and demanding more than they can give, but knowing you, I doubt whether that is the case.

DETAILEES

Last year, you stated that the FBI detailed one special agent, but that you would like the FBI to add personnel. Since last year, have they detailed any additional personnel?

Mr. BRUH. They have an analyst at FinCEN now, Mr. Chairman, in addition to the FBI agent.

Senator DECONCINI. That is encouraging that they see some value in it.

Do you have any State or local personnel detailed?

Mr. BRUH. No; we do not.

Senator DECONCINI. Would you take them or not?

Mr. BRUH. I think at this time we would prefer not to have State or local detailees because of the sensitivity of the information at FinCEN. It would make it much more difficult for FinCEN to deal with the Federal agencies because of certain restrictions against information disclosure.

Senator DECONCINI. When you get a detailee from a Federal agency for a year or longer, when they leave, do they replace them with someone else?

Mr. BRUH. Yes, they do.

Senator DECONCINI. You haven't had to try to fill those positions? You haven't had to come up with somebody in your organization to fill any of those details, have you?

Mr. BRUH. No; they generally replace them. They have been very good about it in the sense of timing when the person is about ready to leave. We usually work that out.

STATE AND LOCAL REQUESTS

Senator DECONCINI. How do you attribute the reduction in requests from local and State law enforcement from your expected number of 2,034 in fiscal year 1993 and drop to 1,445, or 29-percent reduction in fiscal year 1994? What is that attributed to?

Mr. BRUH. I think there are a few reasons. One reason is that we believe FinCEN should be used for investigations that are significant and complex. We frankly try to discourage agencies from asking us for help on investigations that are local in nature and on which they really have no need to come to us for assistance.

MONEY LAUNDERING

Senator DECONCINI. Just touching on money laundering, it is reported that the estimates of the amount of money annually range from $100 to $300 billion. That is quite a range. Now that FinCEN has been in existence for 3 years and your agency has had an opportunity to evaluate and analyze money laundering, do you have an estimate of that?

Mr. BRUH. I do not, Mr. Chairman. I think it is extremely difficult to estimate. I think we know what we catch. I think we could make some guesstimates based on analyses.

Senator DECONCINI. Is that public information as to what you catch?

Mr. BRUH. Ultimately, yes.

Senator DECONCINI. What is that for fiscal year 1992 or fiscal year 1993?

Mr. BRUH. When I say what we catch, I am really including all the U.S. Government.

Senator DECONCINI. You're talking about everybody?

Mr. BRUH. That's correct.

Senator DECONCINI. But does anybody have a handle on what that amounts to? Do you keep that tab?

Mr. BRUH. No.

Senator DECONCINI. Somebody should do that. There should be a place where people at least have to report it.

Mr. BRUH. Again, it is a difficult thing to do because sometimes what may be money laundering may be prosecuted under other charges. It would require an extremely sophisticated system to be able to track all that.

Senator DECONCINI. If there was a definition of money laundering—I am not sure there is.

Is there such a definition in law enforcement?

Mr. BRUH. Yes; there is.

Senator DECONCINI. If that definition were used, would your agency be able to accept references from other law enforcement that this is what they attribute to money laundering?

Mr. BRUH. Yes.

Senator DECONCINI. And nobody does that now?

Mr. BRUH. Nobody does it now.

However, let me say that we are heading toward doing something like what you're talking about. FinCEN is developing a case tracking system, which we hope to implement in the near future, which will basically try to get the information on all money laundering cases that are prosecuted. We will be able to come up with much better information.

SUBMITTED QUESTIONS

Senator DECONCINI. Thank you very much, Mr. Bruh. We will submit a few other questions, and if you could supply that information it will help us.

Mr. BRUH. Certainly.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR DeCONCINI

STAFF REDUCTION

Question. What assurances can you give me that a staffing reduction of even 4 for a small agency like yours will not have an adverse impact on your ability to respond to law enforcement needs in the financial crimes area?

Answer. FinCEN's organizing principle has been to increase productivity for itself, and for all of law enforcement, by building the technology needed to speed access to and analysis of a wide range of (often technically incompatible) data bases. FinCEN's budget leverages the spending of other law enforcement agencies. FinCEN "adds value" by collating, connecting, analyzing, and sharing the significant information resources spread among Federal law enforcement agencies and by providing a central point for analysis, distribution, and linkage of relevant information.

A staffing reduction of four persons will surely be felt, but we will make even greater efforts to continue and improve our work production efforts. First, FinCEN has worked extensively to develop automated capabilities to address workload problems. Its Autoquery system, which is in the final stage of development, enables an analyst to initiate queries of numerous databases simultaneously utilizing a single search command. This and other automated programs will increase productivity to offset the loss of four positions. Additionally, our analysts have become highly proficient in accessing and researching the databases. Their acquired expertise enables them to rapidly develop research strategies and conduct queries of the appropriate systems. Finally, of course FinCEN is developing internal methods to deal with the anticipated workload increases in FY 1994. As workload requirements arise, we plan to shift employees from one area of support to another as necessary.

ADMINISTRATIVE COST REDUCTION

Question. Your budget includes a reduction of $319,000 to meet the goals of the President's Executive Order on reducing administrative expenses by 3 percent. How do you plan to meet this goal and what specific activities will be cut?

Answer. FinCEN has targeted the reduction in several categories so that no specific activity will be required to shoulder the entire burden of the reduction.

The reduction of $319,000 will be achieved through specific cuts from travel, transportation, rent, communications, printing, other services and supplies.

MASSIVELY PARALLEL PROCESSING

Question. In fiscal year 1994 you are requesting $1,263,000 for hardware systems, applications software, systems operation and maintenance for analytical applications. You state that "FinCEN has grown in mission requirements and in staff and the information technology needs to be modified to meet the growth". How was the decision made that these systems are more important than the massively parallel processing system in terms of priority?

Answer. Massively Parallel Processing is a high-technology solution to problems requiring the simultaneous analysis and processing of large amounts of data (for example, the 40-50 million forms contained in the BSA Financial Data Base). It is designed to expand the processing capacity of the basic intelligence systems that FinCEN is building, especially the artificial intelligence system for analysis of BSA information. MPP technology is new and still relatively untested in many applications.

During the last year, FinCEN, like most other agencies, has been faced with a need to spread out the imposition of additional expenditures to face the reality of budget constraints. Although the choice was by no means an easy one, we determined that the soundest course was to concentrate our resources first on cementing the technological capabilities--artificial intelligence, optical character recognition for scanning of documents, and Autoquery that would multiply FinCEN's capacity quickly to service various needs of FinCEN's customer law enforcement agencies.

MPP is at best a technique for the in-depth exploitation of a specific data source. The other systems that FinCEN has chosen to finance first, in the new budgetary environment, relate across the board to analyst productivity and leveraging of resources to enhance quality.

FinCEN is, at its core, an information analysis organization. Without the necessary investment in information systems (both infrastructure and applications), FinCEN will be just another group of law enforcement professionals who have computers on their desks for typing memos and reports. With these investments, FinCEN will be an example of

Government at its best: a small innovative agency that efficiently utilizes state-of-the-art technology to accomplish a core Governmental function. A relatively small dollar investment will bring large returns.

Although we continue to believe that MPP is both appropriate and will ultimately prove necessary for FinCEN, we felt that our immediate technology expenditures, which were to be reduced in any event, would provide a platform into which MPP could be fitted in later years. Our information infrastructure is being built with that end in mind.

Question. If this money is allocated will these system modifications and hardware purchases meet your data processing needs into the 21st century or are there going to be additional requests for funding in the near future?

Answer. Technology is changing at an unparalleled speed, and it is not possible to know whether advances in the future may offer such enhancements to FinCEN's productivity as to be worthy of funding even within the context of FinCEN's present needs. So it is impossible to deny that additional requests for funding will not arise during the next five years. We can say that if FinCEN's staffing and mission remains the same, the current level of support is not expanded, and the technology remains constant, FinCEN should be able to maintain operations - but not build further on its base to multiply the results of its work - for the next several years.

Question. Will this funding provide the needed workstations for each employee?

Answer. Each FinCEN employee currently has a PC, which is adequate for routine office automation (e.g. word processing, spreadsheets and e-mail). However, the current PCs will not support the required automation tools necessary for financial analysis. The requested funding, therefore, will provide a minimally sufficient number of high-end workstations to continue analytical development and establish shared resource work centers for FinCEN's strategic and tactical operations.

AGENCY TACTICAL SUPPORT

Question. Could you give us a breakdown by agency of the number of cases in which you provided "in-the-field" tactical support for ongoing investigations?

Answer. The following statistics represent a single incident of FinCEN's in-the-field (e.g., instances in which FinCEN staff went on-site to provide analysis) tactical support over the period of FY 1992 and FY 1993 through April 30, 1993. It is important to note that our tactical support for on going investigations often requires multiple field visits and continued analytical support as follow-up.

Tactical Case Assistance Provided by FinCEN's Office of Tactical Support from FY 1992 - FY 1993 (4/30/93):

Agency	Cases
DEA	4
DOJ	2
FBI	3
IRS	3
USCS	8
Office of Independent Counsel	1
OCDETF Regions:	
South East	2
South West	1
Los Angeles	1
HIDTA:	
San Diego	1
El Paso	2

These statistics do not take into account the multiple cases in which FinCEN is supplying on-site support to organizations such as the Multi-Agency Financial Investigation Center (MAFIC) and the Southwest Border HIDTA. Also, this data does not include FinCEN training provided to the field or FinCEN's participation in OCDETF regional meetings.

Furthermore, it should be noted that the work reflected in FinCEN's actual "in-the-field" support is above and beyond the 6,000-plus tactical work products, produced during this same period by FinCEN analysts, which are distributed directly to the requesting agency's field offices and represent the majority of FinCEN's tactical field support for ongoing investigations.

DETAILEES

Question. You are requesting funding to support 147 FTE's in your fiscal year 1994 budget submission. In addition to these FTE levels you have employees from participating agencies detailed to FinCEN. I know these detailed employees are an integral part of FinCEN's ability to meet its objectives. How many special agents are currently

detailed to FinCEN and how many of the detailed personnel are from regulatory agencies?

Answer. As of May 10, 1993, there are a total of 44 individuals on detail to FinCEN. Of that total, 37 are agents and seven (7) individuals are employed in other capacities, i.e. analysts, technicians. One (1) individual included in this total of 7 is employed by a regulatory agency (Federal Reserve Board).

In addition, FinCEN's Director and Deputy Director, who are agents, and the two members of FinCEN's Office of Legal Counsel are not included within the 147 FTE total. These four positions are carried on the roles of the Office of the Assistant Secretary of the Treasury (Enforcement), in the case of the Director and Deputy Director, and the Office of the Assistant General Counsel (Enforcement), in the case of FinCEN's two lawyers, and FinCEN reimburses Treasury for their salaries and benefits.

Question. Are there any agencies to which you have made requests for detailees where your requests have been denied? If so, which agencies have denied your requests?

Answer. The only agency that has officially denied FinCEN's request for detailees is the Office of the Comptroller of the Currency.

STATE ASSISTANCE

Question. First, can you tell us if you have received positive feedback from state and local law enforcement and that you are serving a purpose for them?

Answer. FinCEN has received a tremendous amount of positive feedback concerning not only our tactical case support, but our strategic intelligence products and publications as well.

For example, we recently reviewed the 732 tactical support cases, which we completed for state and local law enforcement agencies during the period from April 30, 1992 through May 1, 1993. FinCEN received feedback on 175 of these cases, or on about 24 percent of the cases in which we provided support. The feedback was positive in virtually every case on which we received feedback. While we have processed requests for every state except Montana, our biggest states in terms of volume to date have been Illinois, Ohio, Oregon, Virginia, and Pennsylvania. We have also provided a significant amount of support to Arizona, California, Indiana,

Kentucky, Maryland, Michigan, New York and Washington.

Requests for FinCEN's publications from state and local law enforcement agencies have grown more than three-fold in the past year. Additionally, at the request of several states, we have produced threat assessments, which have resulted in passage of anti-money laundering legislation by these states' legislatures. FinCEN has received many letters of appreciation from these states, including from the Attorneys General of the States of Texas, Arizona, and Washington. Also, the National Association of Attorneys General (NAAG) has frequently published articles in its newsletter that favorably highlight FinCEN's support to state and local agencies.

Question. What steps have you taken to increase assistance to State and local law enforcement agencies?

Answer. Over the past two years, FinCEN has formalized its information sharing agreements by executing Memoranda of Understanding (MOU's) with 47 states, and we plan to complete the remaining state MOU's (other than Montana's) during the coming months. These MOU's designate a statewide FinCEN coordinator for each state through which FinCEN can service not only State level law enforcement agencies, but also the 13,000 plus local police departments and sheriffs' offices nationwide. Additionally, the MOU's lay the foundation for future automated electronic communication and database access.

No other Federal law enforcement agency or entity has this kind of a foundation in place -- and rarely are other Federal law enforcement agencies perceived to "give" more than they "take" with respect to information sharing with state and local agencies.

As a result of the valuable support FinCEN has furnished to state and local law enforcement agencies, the number of requests for FinCEN's services received from them has been growing rapidly. For example, in the first half of FY 1992, FinCEN processed 172 state/local cases. During the same period in FY 1993, FinCEN processed 448 cases. FinCEN processed a total of 684 requests for tactical assistance for state and local agencies in FY 1992. That figure is expected to exceed 1000 in FY 1993.

Several other significant points with respect to FinCEN's state/local support are:

o FinCEN offers broader support services.

A number of the larger and more advanced state and local agencies have developed their own intelligence networks, which may feature access to commercial and other databases. However, these are clearly in the minority. The vast majority of state and local departments are unable to obtain the type of information and sophisticated research support, which FinCEN furnishes, because of their limited budgets, lack of access channels to the data, and/or simple economies of scale. For the vast majority of state and local law enforcement agencies, FinCEN offers a new dimension to financial investigations which, as a practical matter, would not otherwise be available.

Additionally, as a result of FinCEN's growing support and liaison at the state/local level, the requests for presentations by FinCEN at state/local training seminars and conferences, which focus on money laundering and financial crimes investigations, have nearly doubled in the past year. As with all other FinCEN services, these presentations are offered free of charge to the requesting agency, with FinCEN bearing the travel and related expenses.

A "FinCEN block" of instruction is also offered to the state/local officers, who attend financial investigations training at the Federal Law Enforcement Training Center (FLETC).

o FinCEN is proposing "Project Gateway" to provide on-line BSA information for states.

FinCEN is working with Treasury to offer de facto on-line access to the total Financial Database (FDB) to states. This is the single largest information resource which is of value to state/local law enforcement agencies which FinCEN can offer. The data comprises a large portion of the response material currently being furnished to the state/local level in the manual mode.

Essentially, the incoming request and outgoing response would be captured by the FinCEN Data Base. Particularly where the state/local office requesting the information seeks only BSA data, there will be virtually no manpower expenditure by FinCEN and the response will take only minutes or seconds, rather than days or weeks.

The proposed system save investigative time and money because Federal, state and local law enforcement agencies would not have to rely on the resources of another agency to obtain BSA information, and the states would not have to incur

the substantial costs associated with purchasing and maintaining their own individual system. This would also help FinCEN by reducing the number of state requests for assistance to FinCEN, and it would provide FinCEN with additional information that assists agencies in coordinating investigative efforts.

Although FinCEN anticipates using appropriated funds to set up "Project Gateway", we also feel that maintenance funding should be borne by the users of the system.

o State and local agencies receiving FinCEN publications have increased.

In addition to the growth in Tactical support on specific cases noted above, FinCEN has also seen major growth in the number of state/local law enforcement agencies receiving the many publications issued by the FinCEN Office of Strategic Analysis.

These include "FinCEN Updates" and "FinCEN Trends", quarterly publications which provide information on the latest money laundering techniques, as well as specific case examples and studies. Additionally, these state/local offices also receive the FinCEN Reference Series which provide in-depth analysis of special subjects pertinent to money laundering and financial crimes investigations. These publications are furnished free of charge.

o FinCEN provides special threat assessments in support of state legislation.

A growing number of states have seen the need for state level anti-money laundering statutes. There are a number of advantages to this trend, which include state asset forfeiture provisions as well as the ability to take enforcement actions on cases which may not meet the criteria of Federal agencies.

FinCEN has conducted threat assessments in support of proposed legislation by several states with great success. Among the major studies are Project Washington, Project Oregon, the New York Threat Assessment, and the Southwest Border Study. Recently initiated state assessments by FinCEN include New Jersey, Tennessee, and Florida. Requests for similar studies have also been received from a number of other states. There is no other organization, public or private, with the experience or expertise of FinCEN to assist the states with enhancement of their statutes in this area.

STATE CASE SUPPORT

Question. Could you give me a couple of examples of cases that you assisted at the state or local level?

Answer. As noted in our answers to the preceding questions, we assisted on approximately 700 tactical support cases for state/local agencies in FY 1992 and expect to complete about 1000 in FY 1993.

A typical example is a racketeering case on which FinCEN assisted the Oregon State Police. In that case, FinCEN advised the State investigator that DEA had a record on the subject, of which he was not previously aware, and developed information utilizing Dunn & Bradstreet corporate information, which he would not have otherwise received. Further, FinCEN provided CTR information, which assisted the State police in efforts to develop a financial profile of the suspect and provided additional identifying information and potential witnesses. Courthouse records, tax liens and judgments, as well as credit account profiles, accessed from publicly available databases available to FinCEN, were also helpful in assessing financial stability and performing a net worth analysis. The Oregon State Police later evaluated the FinCEN report as "...a key element in the successful racketeering prosecution ..".

A second example involves FinCEN's assistance in an investigation conducted by the Colorado Department of Labor, Investigations and Criminal Enforcement Section, concerning laundering of funds fraudulently obtained from the State of Colorado. In that case, FinCEN determined through CMIR's that the moneys were being exported to a foreign national. FinCEN also identified an out-of-state suspect and address, which led to establishment of a surveillance, with assistance of local authorities, in the other state. After the investigation was completed, the investigator wrote FinCEN an appreciative letter, noting that FinCEN's report saved many investigative hours and eliminated possible defenses.

Because FinCEN also views our strategic analysis support to be of critical importance at the state level, the following examples of feedback concerning threat assessments we have completed in support of state anti-money laundering legislation are offered as additional instances of FinCEN's assistance to state and local governments.

A letter from the Attorney General, State of Washington, commended FinCEN on "Project

Washington," which he states was "of great value... in our efforts to convince the legislature of the need for a money laundering law, and in the investigation of criminal activity in this state." The letter further states, "This collating, analysis and sharing of information with state and local law enforcement has a promising future for more effective law enforcement in our state." The Washington legislature passed the bill, and it has become law.

The second example is a similar letter from the Attorney General, State of Texas, concerning "Project Texas." It states, "The information contained therein should prove invaluable in our efforts to combat money laundering in Texas. ...I am convinced that the effectiveness of our program depends in large part on the continued support of FinCEN. As drug traffickers become more and more sophisticated in their operations, we must rely on resources such as FinCEN to assist in our investigations and prosecutions. Your agency has provided law enforcement with a tool which we cannot afford to be without."

MONEY LAUNDERING

Question. How many suspected money laundering offenders has FinCEN identified during FY 1992 and FY 1993? Of those identified and turned over to the respective agencies for investigation, what number have been successfully prosecuted?

Answer. Most requests received by FinCEN reflect primary investigative jurisdiction--narcotics, firearms, and smuggling violations, or fraud--and not the ancillary or secondary charges such as money laundering. However, virtually every narcotics investigation, for example, is in some way linked to a money laundering operation, whether or not it is identified as such when the request is made to FinCEN.

In FY 1992, FinCEN identified 1106 suspected money launderers in its responses to agencies' requests. Thus far in FY 1993, through May 31, 1993, FinCEN has responded to 1432 investigations with money laundering given as part of the investigative profile. FinCEN also supplied the requesters with identifications of an additional 574 suspects (or 3.5 new suspects for each request received) that were not a part of the incoming money laundering request to FinCEN.

FinCEN currently does not have a system to track and quantify how frequently our work products, which identify money launderers, lead to

investigations or successful prosecutions. A major problem with tracking this type of data is that feedback concerning the ultimate disposition of a prosecutive effort is rarely received. Typically, trial and sentencing will occur 9 months to a year following the production of a FinCEN analytical report to the investigating agency.

The intelligence provided in FinCEN reports is incorporated into complex investigative processes, the end results of which cannot be attributed to any one source of information. Therefore, case agents rarely provide ultimate disposition statistics to FinCEN.

INTERNATIONAL COOPERATION

Question. I would think that in order to successfully investigate and prosecute money laundering cases, the U.S. must have the cooperation of the international law enforcement community. Are you receiving the cooperation from other countries that is needed to effectively pursue these money laundering cases?

Answer. FinCEN does receive cooperation from other countries. In particular, we have an agreement in place with France's TRACFIN, our sister agency in Paris, and a strong working relationship with both the United Kingdom's National Criminal Intelligence Service (NCIS), and Australia's Transaction Reporting and Analysis Center (AUSTRAC).

Additional cooperation occurs on a more strategic level with FinCEN's role in the following multinational initiatives:

Financial Action Task Force (FATF). As part of the FATF External Affairs working group, FinCEN participated in Money Laundering Symposiums in Budapest, Hungary; Warsaw, Poland, and Singapore. These symposiums were designed to introduce these countries to the 40 recommendations of the FATF and to provide some options (tailored to each countries' needs) for implementation of anti-money laundering programs.

INTERPOL (FOPAC Group). FinCEN initiated, using the International Criminal Police Organization (INTERPOL) as a vehicle, an Ad Hoc Working Group on the Analysis of Financial Records. The pilot meeting of this working group occurred in August 1992 with more than 20 countries represented. This year's annual meeting of the working group concentrated on computer systems for managing and analyzing financial records. Presentations were made by four nations (France, Australia, the United Kingdom, and the United States).

- o U.S. AID (Latin America). As part of a U.S. Agency for International Development initiative, FinCEN participated with a representative from the Federal Reserve in providing specialized training in financial record analysis to bank examiners in Panama and Venezuela.

Through participation in these multinational fora, FinCEN continues to pursue additional agreements with other countries.

Question. What is FinCEN doing to develop or enforce international money laundering agreements?

Answer. We play a significant role in supporting both the Treasury Department and State Department roles in pursuing international money laundering agreements. FinCEN's Director Brian Bruh is the head of the U.S. delegation to the Financial Action Task Force's Working Group III (External Affairs). Additionally, we provide support to the Treasury Department's Office of Financial Enforcement (OFE) in the form of background information preparatory to bi-lateral negotiation of Financial Information Exchange Agreements and Mutual Legal Assistance Treaties. Moreover, we meet with foreign officials of many countries in order to gain their cooperation in many areas involving money laundering and related financial crimes.

Question. Section 4702, P.L. 100-690 directed the Treasury and State Departments to pursue negotiations to establish foreign currency reporting guidelines similar to those in the United States. How many countries currently have or are establishing foreign currency agreements?

Answer. Section 4702 mandated the Secretary of the Treasury to negotiate international agreements in order "...to ensure that foreign banks and other financial institutions maintain adequate records of large United States currency transactions, and to establish a mechanism whereby such records may be made available to United States law enforcement officials...." The Treasury Department's Office of Financial Enforcement (OFE) is responsible for the development, negotiation, and enforcement of international agreements under Section 4702. A classified final report on the status of negotiations under Section 4702 was sent to Congress in November 1990.

OFE has led interagency delegations that have negotiated bilateral financial information exchange agreements between the United States Government and the Governments of Colombia, Ecuador, Peru, and

Venezuela. OFE also participated in the negotiations for an MLAT with Panama that contains substantially identical financial information exchange provisions and has concluded negotiations for an agreement with the Government of Paraguay that has been initialed and is awaiting signature.

QUESTIONS SUBMITTED BY SENATOR BOND

REPROGRAMMING REQUEST

Question. I note in reviewing your budget submission that you will be sending a reprogramming request to the committee for action. When can we expect to see the reprogramming? Could you briefly describe what you will be proposing? Mr. Chairman, I am concerned about the gist of this proposal. The Committee used money from the special forfeiture fund to help continue development of the massively parallel processing systems. Yet this budget proposes to use this money for funding of what appear to be baseline budget items. Mr. Bruh, would you like to comment on this?

Answer. FinCEN submitted the reprogramming request in June 1993. The $2.8 million received from the ONDCP Special Forfeiture Fund will not be obligated in FY 1993. OMB has indicated that funds are not expected to be available to complete the development of a massively parallel processing system, and FinCEN should not obligate the $2.8 million in FY 1993. FinCEN's FY 1994 President's Budget proposes that the $2.8 million unobligated at the end of FY 1993 be available for obligation in FY 1994. The funds would be used as follows: (1) to fund two new initiatives--Commercial Information Systems and Information Resources Infrastructure/Artificial Intelligence; (2) to fund a portion of the annualization of rent cost; and to restore items delayed in FY 1993 to cover increased rent.

Question. When will we see the request for the MPP funding and what will it amount to?

Answer. This issue is being evaluated and a determination will be made in time for the FY 1996 budget submissions. New options may have to be developed as the budget picture becomes clearer.

Question. What would happen in FY 1994 if the committee did not agree to this reprogramming request?

Answer. As a large portion of the reprogrammed funds are in support of the move, this suggested action may prevent the move. It would also prevent the necessary changes to our infrastructure preventing us from leveraging technology rather than increasing staff to maintain the same level of customer service. Also, without acquiring critically needed hardware and software, it would be necessary to defer and delay critical applications developments such as the management information system, productivity tools, and strategic analysis capabilities.

HIDTA SUPPORT

Question. The obligation of the HIDTA funding for support of the Southwest border is shown as nonrecurring. Do you intend to continue to support this effort? How will you do it?

Answer. In an effort to provide direct, effective and economic support to the Southwest Border HIDTA, FinCEN requested and received fourth quarter FY 1993 funding from the Southwest Border HIDTA, totaling $100,000.

This funding is currently being used to cover the cost of assigning two Senior Intelligence Research Specialists, one on temporary duty assignment to the HIDTA Financial Task Force in San Diego, California, the other on temporary duty assignment to the HIDTA Financial Task Force in El Paso, Texas. A third analyst, also on temporary duty assignment to the HIDTA Financial Task Force in El Paso, is being funded by the U.S. Customs Service. These six month temporary duty assignments are funded in total by the Southwest Border HIDTA and will continue to the end of FY 1993.

To date the placement of analysts in San Diego and El Paso resulted in the development of information which would not otherwise have been developed. FinCEN analysts linked numerous border financial seizures to ongoing significant OCDETF cases, thereby providing a lead to establish a narcotics nexus. FinCEN analysts also developed significant financial activity and associations from monetary seizures at ports of entry. Also, having FinCEN analysts on-site provided better open dialogue between field elements and FinCEN's strategic analysts in their effort to identify and understand emerging trends and patterns of drug money laundering.

FinCEN wants very much to continue the temporary duty assignments which, to date, have

every indication of success. This type of on-site assistance not only increases our capability to support effectively the HIDTA effort, but also provides each region with direct financial investigative and research support, which can be used to develop and exploit ongoing HIDTA cases to their maximum potential.

ADMINISTRATIVE REDUCTIONS .

Question. The President's Executive Orders 12837 and 12839 call for reductions in overhead and staffing levels over the next four years coming in increments. How will you reach that administrative overhead reductions?

Answer. FinCEN has targeted administrative cost reductions in several categories so that no specific activity will be required to shoulder the entire burden of the reduction. FinCEN's reduction of $319,000 will be achieved through specific cuts from travel, transportation, rent, communications, printing, other services and supplies.

Also, to comply with required reductions in staffing levels, FinCEN would lose 2 FTE, along with their associated authorized positions, each year through FY 1995. This would equate to a total reduction of 6 FTE and 6 authorized positions lost through attrition.

Question. Will these actions adversely impact your ability to provide timely information to your client organizations?

Answer. FinCEN's organizing principle has been to increase productivity for itself, and for all of law enforcement, by building the technology needed to speed access to and analysis of a wide range of (often technically incompatible) data bases. FinCEN's budget leverages the spending of other law enforcement agencies. FinCEN "adds value" by collating, connecting, analyzing, and sharing the significant information resources spread among Federal law enforcement agencies and by providing a central point for analysis, distribution, and linkage of relevant information.

A staffing reduction of four persons will surely be felt, but we will make even greater efforts to continue and improve our work production efforts. First, FinCEN has worked extensively to develop automated capabilities to address workload problems. Its Autoquery system, which is in the final stage of development, enables an analyst to initiate queries of numerous databases

simultaneously utilizing a single search command. This and other automated programs will increase productivity to offset the loss of four positions. Additionally, our analysts have become highly proficient in accessing and researching the databases. Their acquired expertise enables them to rapidly develop research strategies and conduct queries of the appropriate systems. Finally, of course FinCEN is developing internal methods to deal with the anticipated workload increases in FY 1994. As workload requirements arise, we plan to shift employees from one area of support to another as necessary.

STAFF AGENCY ORIGIN

Question. For the record, could you provide a makeup of the staff for FinCEN and the agencies from which they come.

Answer. As of May 10, 1993, FinCEN has a total of 199 employees on board. Following is a breakdown of representatives of each agency:

AGENCY	NUMBER OF EMPLOYEES
FinCEN	155*
U.S. Customs Service	19
Internal Revenue Service	10
FBI	3
Postal Inspection Service	2
Drug Enforcement Agency	2
Secret Service	2
Alcohol, Tobacco & Firearms	1
Defense Criminal Investigative Service	1
U.S. Marshals Service	1
Federal Reserve Board	1
Resolution Trust Corporation	1
Department of Defense	1
TOTAL	**199**

*Four (4) staff are on Treasury rolls.

SOURCES OF REQUESTS

Question. Up to this point the Treasury Department has been the major requester of information. Is that still the case? How about Justice? Are State and local agencies using your abilities/services?

Answer. In FY 1992 there was a significant change in the relative proportion of requests processed by FinCEN on behalf of the respective Departments. Treasury Department and Justice

Department requests were nearly equal in FY 1992. Of the nearly 3800 total tactical reports disseminated by FinCEN in FY 1992, 1044 were prepared for Treasury components, and 1047 were prepared for Justice components. Combined, these reports constituted approximately 56% of the total number of reports prepared.

Meanwhile, state and local requests processed by FinCEN have been growing at a rapid pace both in terms of total requests and as a percentage of the total processed. In FY 1992, FinCEN received a total of 650 tactical case requests from state and local agencies (just over 17% of the total processed). Through the end of May FY 1993, FinCEN has processed in excess of 650 requests from state and local agencies. By the end of this fiscal year, FinCEN projects that in excess of 1000 tactical products will be disseminated to state and local agencies. Also, a number of studies and threat assessments supportive of state agencies and legislative initiatives have been completed by FinCEN's Office of Strategic Analysis.

SUPPORT TO IRS

Question. The IRS proposes to make an exerted effort to improve collections during FY 1994. How will FinCEN be able to help?

Answer. FinCEN supports IRS-CID extensively with tactical work products and has initiated two projects in FY 1993 to more directly assist IRS money laundering and tax enforcement efforts. In FY 1993 (as of May 24, 1993), FinCEN has processed a total of 654 requests for tactical support from IRS-CID. The majority of these requests relate to a special exemption project under which FinCEN is supporting the IRS Detroit Data Center.

FinCEN generally has not assisted the IRS with civil income and excise tax examination and collection activities. We are primarily engaged in support for criminal investigative activities. (We do, of course, offer assistance to the IRS's investigation of criminal tax cases, as indicated above). However, FinCEN cannot use information contained in law enforcement data bases for civil purposes. Also, even our ability to utilize information contained in commercial data bases is limited because of the added expense. FinCEN has only enough funding to support its primary law enforcement mission.

At the same time, FinCEN is interested in offering all the assistance to Treasury agencies that it is able to offer. Therefore, FinCEN would be interested in engaging in specific, targeted intelligence projects, or providing consulting on computer and data base sources, that might be of use to the IRS's examination and collection functions.

SUBCOMMITTEE RECESS

Senator DECONCINI. The subcommittee will stand in recess until 10 a.m., Thursday, April 22 when we will hear testimony from the U.S. Secret Service and the Executive Office of the President.

Thank you.

[Whereupon, at 11:15 a.m., Tuesday, April 20, the subcommittee was recessed, to reconvene at 10:08 a.m., Thursday, April 22.]

TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1994

THURSDAY, APRIL 22, 1993

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:08 a.m., in room SD–116, Dirksen Senate Office Building, Hon. Dennis DeConcini (chairman) presiding.

Present: Senators DeConcini and Bond.

DEPARTMENT OF THE TREASURY

U.S. SECRET SERVICE

STATEMENT OF JOHN W. MAGAW, DIRECTOR

ACCOMPANIED BY:

GUY P. CAPUTO, DEPUTY DIRECTOR
DAVID C. LEE, ASSISTANT DIRECTOR, ADMINISTRATION
HUBERT T. BELL, ASSISTANT DIRECTOR, PROTECTIVE OPERATIONS
H. TERRENCE SAMWAY, ASSISTANT DIRECTOR, PROTECTIVE RESEARCH
GEORGE J. OPFER, ASSISTANT DIRECTOR, INVESTIGATIONS
MICHAEL S. SMELSER, ASSISTANT DIRECTOR, TRAINING
DALE F. BURKETT, CHIEF, FINANCIAL MANAGEMENT DIVISION
PHILIP N. DIEHL, COUNSELOR TO THE SECRETARY AND CHIEF OF STAFF
JOHN P. SIMPSON, DEPUTY ASSISTANT SECRETARY OF THE TREASURY, REGULATORY, TARIFF, AND TRADE ENFORCEMENT
ROBERT RASOR, SPECIAL AGENT IN CHARGE OF FINANCIAL FRAUD

OPENING REMARKS

Senator DECONCINI. The Subcommittee on Treasury, Postal Service, and General Government will come to order.

Today the subcommittee will take testimony from the U.S. Secret Service and the Executive Office of the President on their fiscal year 1994 budget requests. Our first panel this morning will consist of representatives of the Secret Service. Testifying will be Director John Magaw, and I will let you introduce everyone else.

Mr. Magaw, we welcome you and I would like to open the hearing by commending you, and the men and women who work for the

Secret Service, for another fine job this past year with the 1992 Presidential campaign, the convention, and the inauguration.

During this very busy and demanding time period you not only carried out your protective mission without a glitch, but you also were able to continue your investigative responsibilities. You should be very proud of the professionalism and dedication of your people. They have done a fine job.

For fiscal year 1994, the President's proposed budget for salaries and expenses of the U.S. Secret Service totals $457.36 million and 4,501 FTE positions. This amount reflects a reduction of $11.795 million and 115 FTE's from the fiscal year 1993 enacted level. I am very concerned about what impact these reductions will have on your ability to carry out your law enforcement responsibilities.

Before we hear from you, Mr. Director, I yield to the ranking member, the Senator from Missouri, for any opening statement he cares to make.

Senator BOND. Thank you, Mr. Chairman.

I will reserve my time for these witnesses to questions. I may have some comments before the followup presentation begins, but we are delighted to have the Secret Service before us and are most delighted to hear about their plans.

Senator DECONCINI. Director, would you like to introduce everyone who is here?

STATEMENT OF JOHN W. MAGAW

Mr. MAGAW. Mr. Chairman and members of the committee, my associates and I are pleased to be here today to discuss the fiscal year 1994 appropriation request of the Secret Service.

Before I introduce my associates who are with me today, I would first like to affirm that you and the members of this committee have this agency's and this Director's pledge to continue a forthright, effective, and cooperative working relationship. I believe you will find this budget to be responsive to the President's mandate.

Our respect and congratulations to you, Senator Bond, on your new position as the ranking member.

With me today, Mr. Chairman, are Mr. Guy Caputo, Deputy Director; Mr. David Lee, Assistant Director for Administration; Mr. Hubert Bell, Assistant Director for Protective Operations; Mr. Terry Samway, Assistant Director for Protective Research; Mr. George Opfer, the new Assistant Director for Investigations; Mr. Mike Smelser, the Assistant Director for Training; and Mr. Dale Burkett, Chief of our Financial Management Division.

Since this is the first appearance for Mr. Opfer before this committee, a biographical sketch has been prepared for the record.

I welcome this opportunity to review with this committee the Service's mission, and the importance of its programs in accomplishing this mission. In my testimony, I would like to detail the Service's fiscal year 1994 budget request, review the status of current funding, summarize current program performance, as well as outline significant events and issues for this fiscal year and the next fiscal year to come.

The fiscal year 1994 appropriation request, as previously stated by the chairman, is $457.36 million with 4,501 FTE positions. This is a net decrease of $11.795 million from the fiscal year 1993 ap-

propriation of $469.155 million. This request includes funds in the amount of $8.52 million to cover cost increases and allow the Service to maintain its current operating level, $11.421 million in reductions for nonrecurring fiscal year 1993 costs, and $8.925 million in reductions reflecting administrative overhead cost savings and a lower FTE position level, as well as anticipated savings from the Government's telephone system FTS 2000. There are no program increases requested in this budget.

Before discussing the Service's recent program accomplishments and the future, I would like to review the current year's budget and address the Service's request to reprogram funds within its fiscal year 1993 appropriation.

As you know, the Service has recently requested authority to reprogram a total of $12.6 million in its fiscal year 1993 appropriation. This reprogramming is needed in order to cover a base budget shortfall in the Service's personnel compensation and benefits accounts. This shortfall has been an ongoing problem for the Service. However, with the myriad changes in Federal pay, including law enforcement and general pay reform, it has been difficult over the past few years to eliminate this problem. The Service believes that with this reprogramming, the problem of underfunding in its payroll accounts is behind it.

In addition to the budget shortfall, the Service must address other significant issues and events during this fiscal year. The most significant issues involve establishing a new protective detail for former President and Mrs. Bush and providing security for the visit of Pope John Paul II to this country in August, as well as accommodating the anticipated heavy amount of visits by world leaders to the United States to meet with President Clinton.

Those visits are already starting to occur. With the opening of the Holocaust Museum today, there are 12 heads of state as well as several spouses to protect.

With the change in administration, a new protective detail for former President and Mrs. Bush was established on January 20, 1993. It is based in Houston, TX.

Pope John Paul II is scheduled to visit the United States later this fiscal year. The Pope will attend a youth conference involving massive crowds and multiple sites. In order to ensure a safe and secure environment for the Pope, the Service will require a large number of employees to be present at these events.

There are other protective issues involving the Service. In the conference report accompanying this fiscal year's appropriation, the conferees requested that I meet with each former President and the spouse of a deceased former President by April 15, 1993, and I have done that. The purpose of these meetings was to discuss the threat level for each protectee, to explain the costs of each protective detail, and to identify less costly protection alternatives. The Service was asked to, and will, provide confidential briefings on these meetings to the Appropriations Committees no later than June 1, 1993. In fact, we are prepared to do that at any time.

Also of concern to the Service is its attempt to consolidate all headquarters operations in one location. For a number of years, the Service has strived to accomplish this for efficiency purposes. Title IV of this fiscal year's Appropriations Act provides funding to GSA

of $150.6 million for a Secret Service headquarters building to enable the Service to achieve this goal. The Service is currently working with GSA; looking at several locations in the immediate vicinity of the White House complex for this consolidated site.

I would now like to elaborate on the Service's recent accomplishments, as well as address important future endeavors.

The Service's major challenge in fiscal year 1992 was to meet the protective requirements associated with the Presidential campaign. During the 1992 Presidential campaign, the Service protected Democratic Presidential candidates Robert Kerrey, Paul Tsongas, William Clinton, and Republican Presidential candidate Patrick Buchanan. Together, these candidates made 452 domestic stops. After the Democratic National Convention, the Service assumed protective responsibilities for Presidential nominee William Clinton and Vice Presidential nominee Albert Gore, Jr., and their spouses.

These protectees made 550 domestic stops in fiscal year 1992, and through January 20, 557 stops in fiscal year 1993. The Service also protected Independent Vice Presidential nominee James Stockdale and his spouse for approximately 5 weeks in fiscal year 1993.

In addition, the Service has continued meeting the challenge of its responsibilities for providing security for its permanent protectees.

President Bush and Vice President Quayle and their spouses made a combined total of 1,754 domestic stops and 57 foreign stops during fiscal year 1992. In fiscal year 1993, through January, these protectees made a combined total of 646 domestic and 7 foreign stops.

Presidential foreign travel in fiscal year 1993 included visits to Moscow, for the summit with President Yeltsin, and to Somalia. Presidential and Vice Presidential travel, and that of the other candidates and nominees, placed a significant demand on the manpower and other resources of the Secret Service during fiscal years 1992 and 1993.

Also, the Service continued protection for former Vice President Quayle, under Public Law 103–1, from January 20, 1993, to February 20, 1993, which was 30 days after the inauguration.

Aside from the campaign and its permanent protectees, the Service provided protection for 304 foreign heads of state and 69 accompanying spouses. These dignitaries made 1,650 stops, with an average stay in this country of 5 days.

The Service continued protection of the Haitian President, which included 194 days and 67 stops in fiscal year 1992. So far in fiscal year 1993, we have protected the Haitian President 201 of 204 days.

Several other foreign dignitaries who had extended stays in the United States were the President of Cyprus and his spouse for 37 days, and a second visit for 18 days, totaling 20 stops. The Chairman of Sierra Leone had one visit for 47 days and 10 stops. King Hussein of Jordan and his spouse had one visit of 19 days and three stops. The rest of the dignitary visits stayed within the average of 5 days.

Through this date, there have been 103 visits by foreign heads of state and 24 accompanying spouses with 396 stops. Those totals

include the visit of the 12 heads of state for the Holocaust Museum dedication.

The Uniformed Division continues to be an integral part of the Service's protective mission. The magnetometer units screened 590,285 visitors to the White House during the last fiscal year. The officers assigned to the White House Branch made a total of 52 arrests.

Officers assigned to the Foreign Missions Branch, which protects 468 foreign diplomatic missions, made a total of 868 arrests.

The canine units, which support the White House and Foreign Mission Branches and Presidential travel, conducted 32,482 searches.

In the investigative arena, significant progress was made last fiscal year in investigating financial institution fraud, and the West African criminal element, and in combating counterfeit activity.

The Service initially dedicated 100 special agents in 14 target offices throughout the Nation to investigate financial institution fraud, and has since expanded its investigations to over 100 locations. The Service has trained over 250 of its agents. Last fiscal year, the Service closed 471 such investigations and made 343 arrests. The seized assets totaled approximately $5 million. There were 58 failed institutions involved, and 177 institutions sustained losses in excess of $100,000. Total losses for these institutions was $524 million.

In fiscal year 1992, the Service established task forces in 13 major U.S. cities to investigate West African financial crimes. Activity in this area encompassed 220 cases, 153 arrests, and actual losses of $11.6 million to banks and credit card companies. Recently, the efforts of the New York task force led to the suppression of a major counterfeit identification plant. It is estimated that the suppression of this plant prevented millions of dollars in monetary losses to the banking system.

The Service continues to work aggressively at reducing the level of counterfeit U.S. currency. Approximately one-third of all counterfeit U.S. currency now originates in foreign countries. For example, during the first 6 months of this fiscal year, over $95 million was seized overseas. This foreign counterfeit is usually of a very good quality and is normally produced by the traditional offset printing process. Over the past 3 years, the Service has had to drastically increase its efforts in combating the foreign counterfeit threat.

One way of combating the foreign counterfeit threat is via the Service's counterfeit information system. This system provides easy access to the current counterfeit data base which assists all our field offices in identifying counterfeit notes. It also includes arrest history screens and an online counterfeit note digest which identifies all persons arrested or suspected of counterfeit involvement.

In the area of property protection and technical security, the Service's work involving the construction of the south grounds bollards, the installation of ballistic windows, and the implementation of an access control system continues at the White House. Also, progress continues on the design and construction phases of renovating the Service's command post at the Vice President's residence as well as renovating the residence's main gate.

In addition, the Service's Office of Protective Research has a number of ongoing efforts to enhance the protective intelligence assessment and case management processes. With an eye toward validating and improving the predictive decisions the Secret Service must make regarding the risk posed by people making threats against protectees, a major multiyear project, the Exceptional Case Study Project, was undertaken. This project involves a systematic collection and analysis of incidents where violence has been directed toward public figures. This is an effort to examine, from an operationally relevant perspective, assassination-related behavior.

While the Service has significant events and issues to address during fiscal year 1993, the agency must also plan for the future. These plans include, but are not limited to, addressing the evolution of new jurisdictions, especially in the area of financial crimes.

In January of this year, the Secretary of the Treasury directed the institution of a new procedure related to financial institution fraud cases. This new procedure is coordinated through the Office of the Assistant Secretary for Enforcement. It involves the collection and dissemination of criminal referrals between regulatory and criminal investigative agencies of the Treasury Department. This procedure is consistent with congressional intent that the Department take a more aggressive, proactive approach toward safeguarding the soundness of the financial institutions it regulates.

In addition, during the summer of 1995, the Service will begin preparing and training for the 1996 Presidential campaign. During September and October 1995, the United Nations will hold its 50th General Assembly. Preliminary information being received by the Service indicates that 180 heads of state will attend the ceremonies, which will be held in San Francisco and New York. This is a big change because in the past, most of it has only occurred in New York. In 1995, they will have two separate ceremonies.

Thank you, Mr. Chairman and members of the committee, for your support of our efforts to professionally and competently serve the citizens of this wonderful country.

Mr. Chairman, this concludes my statement. I will be pleased to answer, at this time, any questions you or the other members of the committee may have.

PREPARED STATEMENTS

Senator DECONCINI. Thank you very much, Director. Your prepared statement will be made part of the record. We also have a statement from Mr. Simpson which will be inserted in the record along with the biographical sketches.

[The statements follow:]

STATEMENT OF JOHN W. MAGAW

Mr. Chairman and Members of the Committee, I am pleased to be here today to discuss the fiscal year 1994 appropriation request of the U.S. Secret Service.

Before I introduce my associates who are with me today, I would first like to affirm that you and the members of this committee have this agency's and this Director's pledge to continue a forthright effective, and cooperative working relationship. I believe you will find this budget to be responsive to the President's mandate. Our respect and congratulations to you Senator Bond on your new position as Ranking Member.

With me today, Mr. Chairman are Mr. Guy Caputo, Deputy Director; Mr. David Lee, Assistant Director for Administration; Mr. Hubert Bell, Assistant Director for Protective Operations; Mr. Terrence Samway, Assistant Director for Protective Research; Mr. George Opfer, the new Assistant Director for Investigations; Mr. Michael Smelser, the Assistant Director for Training; and Mr. Dale Burkett, Chief of our Financial Management Division. Since this is the first appearance of Mr. Opfer before this Committee, a biographical sketch has been prepared for the record.

I welcome this opportunity to review with this Committee the Service's mission, and the importance of its programs in accomplishing that mission. In my testimony, I would like to detail the Service's fiscal year 1994 Budget Request, review the status of current funding, summarize current program performance, as well as outline significant events and issues for this fiscal year and next, and the future.

FISCAL YEAR 1994 APPROPRIATION REQUEST

The pending appropriation request for fiscal year 1994 totals $457,360,000 and 4,501 FTE positions. This is a net decrease of $11,826,000 from the fiscal year 1993 appropriation of $469,186,000. This request includes funds in the amount of $8,520,000 to cover cost increases and allow the Service to maintain its current operating level, $11,421,000 in reductions for non-recurring fiscal year 1993 costs, and $8,925,000 in reductions reflecting administrative overhead cost savings and a lower FTE position level, as well as anticipated savings from the government's telephone system, FTS 2000. There are no program increases requested in this budget.

CURRENT FUNDING

Before discussing the Service's recent program accomplishments and the future, I would like to review the current year's budget and address the Service's request to reprogram funds within its fiscal year 1993 appropriation.

As you know, the Service has recently requested authority to reprogram a total of $12.6 million in its fiscal year 1993 appropriation. This reprogramming is needed in order to cover a base budget shortfall in the Service's personnel compensation and benefits accounts. This shortfall has been an ongoing problem for the Service. However, with the myriad changes in federal pay, including law enforcement and general pay reform, it has been difficult to eliminate this problem.

The Service believes that with this reprogramming, the problem of underfunding in its payroll accounts is behind it, and does not see this as being a significant problem in the future.

OTHER SIGNIFICANT EVENTS AND ISSUES—FISCAL YEAR 1993

In addition to the budget shortfall, the Service must address other significant issues and events during this fiscal year. The most significant issues involve the establishment of a new protective detail for former President and Mrs. Bush and providing security for the visit of Pope John Paul II to this country in August 1993, as well as accommodating the anticipated heavy amount of visits by world leaders to the United States to meet with President Clinton.

With the change in administrations, a new protective detail for former President and Mrs. Bush was established on January 20, 1993, and is based in Houston, Texas.

Pope John Paul II is scheduled to visit the United States later this fiscal year. The Pope will attend a youth conference involving massive crowds and multiple sites. In order to ensure a safe and secure environment for the Pope, the Service will require a large number of employees to be present at these events.

There are other protective issues involving the Service. In the conference report accompanying this fiscal year's appropriation, the conferees requested that I meet with each former President and the spouse of a deceased former President by April 15, 1993, and I have done that. The purpose of these meetings was to discuss the threat level for each protectee, to explain the costs of each protective detail, and to identify less-costly protection alternatives. The Service was asked to, and will, provide confidential briefings on these meetings to the Appropriations Committees no later than June 1, 1993.

Also of concern to the Service is its attempt to consolidate all headquarters operations in one location. For a number of years, the Service has strived to accomplish this. Title IV of this fiscal year's appropriations Act provides funding to GSA of $150.6 million for a Secret Service headquarters building, to enable the Service to achieve this goal. The Service is currently reviewing, along with the GSA, several possible locations for this new consolidated site.

I would now like to elaborate on the Service's recent accomplishments, as well as address important future endeavors.

CANDIDATE PROTECTION

The Service's major challenge in fiscal year 1992 was to meet the protective requirements associated with the Presidential Campaign.

During the 1992 Presidential Campaign, the Service protected Democratic presidential candidates Robert Kerrey, Paul Tsongas, William Clinton, and Republican presidential candidate Patrick Buchanan. Together these candidates made 452 domestic stops. After the Democratic National Convention, the Service assumed protective responsibilities for Presidential nominee William Clinton and Vice Presidential nominee Albert Gore, Jr. and their spouses. These protectees made 550 domestic stops in fiscal year 1992 and, through January 20th, 557 stops—in fiscal year 1993. The Service also protected Independent Vice Presidential nominee James Stockdale and his spouse for approximately five weeks in fiscal year 1993.

PERMANENT PROTECTION

Beyond the campaign, the Service continued meeting the challenge of its responsibilities for providing security for its permanent protectees.

President Bush and Vice President Quayle and their spouses made 784 and 970 domestic stops with 27 and 30 foreign stops, respectively, during fiscal year 1992. In fiscal year 1993, through January, these protectees had 363 and 283 domestic stops and 7 foreign stops respectively. Some of the presidential foreign travel in fiscal year 1993 included visits to Moscow for a summit with President Yeltsin and to Somalia. Presidential and Vice Presidential travel and that of the other candidates and nominees placed a significant demand on the manpower and other resources of the Secret Service during fiscal years 1992 and 1993.

Additionally, the Service continued protection for former Vice President Quayle pursuant to Public Law 103–1 from January 20, 1993 through February 20, 1993.

In fiscal year 1992, the Service's other permanent protectees made 1,562 domestic stops and 119 foreign stops.

DIGNITARY PROTECTION

Aside from the campaign and its permanent protectees, the Service protected 304 foreign heads of state and 69 accompanying spouses visiting the United States during fiscal year 1992. These dignitaries made 1,650 stops with an average stay of five days. The Service continued the protection of Haitian President Jean Aristides which included 194 days and 67 stops. Several other foreign dignitaries who had extended stays in the United States were: President George Vassiliou of Cyprus and his spouse, one visit of 37 days and a second visit of 18 days, and totalling 20 stops; Chairman Valentine Strasser of Sierra Leone, one visit of 47 days and 10 stops; and King Hussein of Jordan and his spouse, one visit of 19 days and 3 stops.

There were several special events that were attended by a number of foreign dignitaries during fiscal year 1992. These included a United Nations Security Council meeting held in January, 1992 attended by twelve Heads of State and President Bush; the San Antonio Drug Summit held in February, 1992 and attended by five Heads of State and President Bush; and the 47th annual meeting of the United Nations General Assembly which began in September, 1992 and was attended by forty Heads of State and eleven of their spouses.

Through the end of January, 1993 there have been 68 visiting foreign heads of state and 14 accompanying spouses with 396 stops.

UNIFORMED DIVISION

The Uniformed Division continues to be an integral part of the Service's protective mission. The magnetometer units screened 590,285 visitors to the White House during last fiscal year. The officers assigned to the White House Branch made a total of 52 arrests.

Officers assigned to the Foreign Missions Branch, which protects 468 foreign diplomatic missions, made a total of 868 arrests.

The canine units which support the White House and Foreign Missions Branches, and presidential travel, conducted 32,482 searches.

INVESTIGATIVE ACTIVITY

In the investigative arena, significant progress was made last fiscal year in reducing financial institution fraud, investigating the West African criminal element, and in combating counterfeit activity.

The Service initially dedicated 100 Special Agents in 14 target offices throughout the nation to investigating financial institution fraud, and has since expanded its investigations in financial institution fraud to 100 offices. In addition, over 200 agents were provided formal training in this area. Last fiscal year, the Service closed 471 such investigations (which was a 119 percent increase over fiscal year 1991), made 343 arrests (which was a 143 percent increase over fiscal year 1991), and seized assets totaling approximately $5 million. Fifty-eight failed institutions were involved, and one hundred and seventy-seven institutions sustained losses in excess of $100,000. Total losses for these institutions was $524 million.

In fiscal year 1992, the Service established task forces in 13 major U.S. cities to investigate West African financial crimes and narcotics trafficking. Activity in this area encompassed 220 cases, 153 arrests, and actual losses of $11.6 million to banks and credit card companies. Recently, the efforts of the New York Task Force led to the suppression of a major counterfeit identification plant. It is estimated that the suppression of this plant prevented millions of dollars in monetary losses to the banking system.

The Service continues to work aggressively at reducing the level of counterfeiting of U.S. currency. Approximately one third of all counterfeit U.S. currency now originates in foreign countries. During the first four months of this fiscal year, over $40 million was seized overseas. This foreign counterfeit is usually of a very good quality and is normally produced by the traditional offset printing process. Over the past three years the Service has had to increase drastically its efforts in combatting the foreign counterfeit threat.

One way of combating the foreign counterfeit threat is via the Service's Counterfeit Information System. This system provides easy access to the current counterfeit database which assists all Service field offices in identifying counterfeit notes. It also includes arrest history screens and an on-line counterfeit note digest which identifies all persons arrested or suspected of counterfeit involvement.

PROTECTIVE RESEARCH AND TECHNICAL SECURITY

In the area of property protection and technical security, the Service's work involving the construction of the South Grounds bollards, the installation of ballistic windows, and the implementation of an access control system continues at the White House. Also, progress continues on the design and construction phases of renovating the Service's command post at the Vice President's residence as well as the main gate.

In addition, the Service's Office of Protective Research has a number of ongoing efforts to enhance the protective intelligence assessment and case management processes. With an eye towards validating and improving the predictive decisions the Secret Service must make regarding the risk posed by people making threats against protectees, a major multi-year project, the Exceptional Case Study Project, was undertaken. This project involves a systematic collection and analysis of incidents where violence has been directed towards public figures. This is an effort to examine, from an operationally relevant perspective, assassination related behavior.

FUTURE PLANS

While the Service has significant events and issues to address during fiscal year 1993, the agency must also plan for the future. These plans include, but are not limited to, addressing the evolution of new jurisdictions, especially in the area of financial crimes.

In January 1993, the Secretary of the Treasury directed the institution of a new procedure related to financial institution fraud cases. This new procedure is coordinated through the Office of the Assistant Secretary for Enforcement. It involves the collection and dissemination of criminal referrals between regulatory and criminal investigative agencies of the Treasury Department. The procedure is consistent with Congressional intent that the Department take a more aggressive, proactive approach toward safeguarding the soundness of the financial institutions it regulates.

In addition, during the summer of 1995 the Service will begin preparing and training for the 1996 Presidential Campaign. During September and October of 1995, the United Nations will hold its 50th General Assembly. Preliminary information being received by the Service is that approximately 180 Heads of State will attend ceremonies which will be held in San Francisco and New York.

Thank you, Mr. Chairman, and members of the Committee for your support of our efforts to professionally and competently serve this wonderful country.

Mr. Chairman, this concludes my statement. I will be pleased to answer any questions you or the other members of the Committee may have.

STATEMENT OF JOHN P. SIMPSON

Mr. Chairman and Members of the Subcommittee, it is a pleasure to appear before you today to discuss the fiscal year 1994 budgetary requirements of the U.S. Secret Service. With me today are John W. Magaw, Director, of Secret Service and members of his staff.

Our fiscal year 1994 request is $457,360,000 and 4,501 full-time equivalent (FTE) positions. This represents a net reduction of $11,795,000 and 69 FTE's when compared with the fiscal year 1993 authorized level. The overall reduction includes $20,346,000 and 69 FTE's for nonrecurring costs. The FTE reduction responds to Executive Order 12839, which requires each department with over 100 employees to achieve at least a four percent reduction by fiscal year 1995. This reduction is offset by an increase of $8,520,000 to maintain current levels of operation. Director Magaw will be providing you and members of your subcommittee with the specifics of their current operating programs. However, I would like to take this opportunity to give you an overview of the Secret Service from the Treasury Department's perspective.

The mission of the U.S. Secret Service is diverse and constantly evolving. The Service has its well-known responsibility for protection of the President, the Vice President, and other designated individuals. However, the Secret Service is also responsible for the enforcement of laws relating to obligations and securities of the United States, and financial crimes such as financial institution fraud, and computer and telecommunication fraud. These investigative responsibilities have broadened in recent years as threats to the integrity of our financial instruments and financial institutions have changed.

Nonetheless, the Service's major challenge in fiscal year 1992 was to meet the protective requirements associated with the presidential campaign. Let me give you a summary of what that entailed. As you know, protection begins before the national conventions when the Service begins to protect major candidates. Prior to the conventions, these candidates made a total of 452 domestic stops.

After the Democratic National Convention, the Service assumed protection for Presidential nominee William Clinton and Vice Presidential nominee Albert Gore, Jr., and their spouses. These protectees made 550 domestic stops in fiscal year 1992.

In addition, President Bush and Vice President Quayle and their spouses made a total of 1,754 stops, including 57 foreign stops, during fiscal year 1992.

During this same period, that is, fiscal year 1992, the Service's other permanent protectees made 1,562 domestic stops and 119 foreign stops. The Service also provided protection for 304 foreign heads of state and 69 accompanying spouses visiting the United States.

With the change in Administration, a new protective detail for former President and Mrs. Bush was established on January 20, 1993, in Houston, Texas. Additionally, the Service provided protection for Former Vice President Quayle under Public Law 103–1, from January 20, 1993 through February 20, 1993.

As you can see, the last year has been a demanding one for the Secret Service.

The Service continues to work aggressively at reducing the level of counterfeiting of U.S. currency. Over the last three years, the Service has increased it's efforts to combat the foreign counterfeit threat. As Director Magaw will tell you, approximately one third of all counterfeit U.S. currency now originates in foreign countries. During the first four months of fiscal year 1993, over $40 million was seized overseas.

Mr. Chairman, we at Treasury are all very proud of the men and women of the Secret Service, and very mindful of the hard work and sacrifices that their jobs entails. And I believe that the support that this subcommittee has given the Secret Service over the years is evidence that you share our view.

With your concurrence, Mr. Chairman, may I ask Director Magaw to present his prepared statement and then we shall be pleased to answer any questions you or other members of the subcommittee may have.

Thank you.

BIOGRAPHICAL SKETCHES

JOHN P. SIMPSON

John P. Simpson has served as Deputy Assistant Secretary of the Treasury for Regulatory, Tariff, and Trade Enforcement since December 1986. Immediately prior to his current appointment he served for five years as Director of the Office of Regulations and Rulings, U.S. Customs Service.

Mr. Simpson was previously Deputy Assistant Secretary of the Treasury for Operations and Deputy Director for Economics, Policy Analysis, and Budget of the U.S. Department of Agriculture.

He is a member of the District of Columbia Bar.

GEORGE J. OPFER

George J. Opfer was appointed Assistant Director of the Office of Investigations on September 6, 1992. Prior to this appointment, Mr. Opfer served as the Assistant Director of the Office of Inspection. He has also served as the Special Agent in Charge of the Service's Washington Field Office.

As Assistant Director in the Office of Investigations, Mr. Opfer is responsible for supervising over 2,000 employees in 140 locations within the United States and abroad. Within the scope of his responsibilities, he plans, directs, and coordinates all criminal and non-criminal investigations, evaluates investigative techniques, and implements changes in law enforcement procedures.

Mr. Opfer was born in New York, New York, on May 12, 1947. He received a bachelor of science degree in business administration from St. John's University in New York, New York, in 1969.

He began his Secret Service career as a special agent assigned to the New York Field Office in 1969. Subsequent career assignments have included duty in the Presidential Protective Division, Forgery Division, Liaison Division, Washington Field Office, and the Office of Protective Operations.

Mr. Opfer is an active member of the Virginia Association of Chiefs of Police.

FTE REDUCTIONS

Senator DECONCINI. Director, your fiscal year 1994 budget for salaries and expenses proposes a staffing reduction of 69 FTE's and $4.5 million. I understand that in order to comply with the President's Executive order, you are also required to reduce staffing by 46 FTE's by the end of fiscal year 1993 for a total of 115 by the end of fiscal year 1994.

As I have stated in previous hearings with other Treasury law enforcement agencies, I am concerned that this staffing reduction will have an adverse effect on Federal law enforcement ability to perform its mission. I find it hard to understand the administration's reasoning for cutting Federal law enforcement while at the same time proposing to fund an initiative to put 100,000 local police officers on the street.

How will this reduction affect the Secret Service's ability to accomplish both the protective and investigative mission?

Mr. MAGAW. Mr. Chairman, it certainly will affect it. We are trying to look at every area of our jurisdiction—everything that we're doing in the area of protection and in the area of all our investigative functions, to include financial institution fraud, counterfeiting and check violations, all across the board and try to affect each area in the slightest manner possible with the thought of going across the board and not cutting any one program drastically. We would like to fine-tune and cut some areas to meet that requirement.

Senator DECONCINI. You show an intent to reduce special agents by 31, Uniformed Division by 16, and all other areas by 22. Do you anticipate doing this by attrition?

Mr. MAGAW. Yes, sir; we are anticipating doing that by attrition. We will come up with the total number through attrition. Whether we will be able to hold to each of those categories, we are not sure.

Senator DECONCINI. What was your attrition rate in fiscal year 1992?

Mr. MAGAW. It was about 4.5.

Senator DECONCINI. Which was how many people?

Mr. LEE. That was 207.

Senator DECONCINI. That is quite an attrition rate, then.

Mr. LEE. And that is down from past years.

PROTECTION OF FORMER PRESIDENTS

Senator DECONCINI. Mr. Director, I understand that you will be reporting to the subcommittees on your meeting with the former Presidents. Much of that is confidential in nature because of many reasons, but did you discuss with the former Presidents and Mrs. Johnson the feasibility of discontinuing protection after a certain time period—say 10 years—and if so, were any of the former Presidents receptive to this change?

I think I know the answer to that one.

Mr. MAGAW. I did discuss that with them, sir. The former President that wanted to make certain that the committee understood that he was leaving it in their hands and would abide by their decision and would not make any arguments one way or the other was President Bush.

The other former Presidents will make their points known that they feel it is necessary for the rest of their lives.

President Nixon obviously feels that——

Senator DECONCINI. Did you talk to him, too?

Mr. MAGAW. Yes, I did.

Senator DECONCINI. Was he satisfied with what his approach has been?

Mr. MAGAW. He is very satisfied. He gave me permission—as they all did—to discuss in executive session virtually exactly what they said. We kept notes on those meetings.

Mrs. Johnson feels that she wants to leave that decision totally to the committee. She will abide by whatever your thoughts are.

Senator DECONCINI. As long as we're talking about the protection of former Presidents, what are you budgeting in fiscal year 1994 for the total amount? That is not classified, is it?

Mr. MAGAW. It is not. It will be between $16.5 and $17 million, Mr. Chairman.

Senator DECONCINI. In the course of your discussions with them, have you been able to identify any areas where you may be able to save some money, but still accomplish your protective mission as it is today?

Mr. MAGAW. We did a two-track approach, Mr. Chairman. We wanted to have our people look exactly at each detail, and exactly what we're doing, to find out if there was a way that we could do it with some cost savings. Once we had identified that, I did discuss it with each of the former Presidents and Mrs. Johnson. Of

course, the Bush detail, beginning as it has now, we have been watching it very closely. We were able to come up in each of the cases with some savings. I did want to save that for executive summary because obviously it is——

WORLD TRADE CENTER BOMBING

Senator DECONCINI. I know you have some reprogramming requests, Mr. Director. You are requesting authority to reprogram $5 million for equipment which is used for replacement of vehicles. I understand the New York field office had nearly 100 vehicles destroyed in the World Trade Center bombing.

Mr. MAGAW. We did. And that figure that you have in the reprogramming is a case where I think the decimal is in the wrong place. It is $500,000. But I also don't want to mislead in that these are separate issues.

In New York, we did have some cars damaged, virtually totally lost. That is in the supplemental that we have asked for, which is right around $2.8 million.

Senator DECONCINI. Were any of these vehicles insured by the World Trade Center or any other insurance?

Mr. MAGAW. It doesn't appear that that is going to be the case. The World Trade Center and the authorities of the building complex up there, by having discussions and talking about it, feel that the Government is going to have to accept that loss, although we are staying on top of it and filling out the forms that are necessary in making the claims.

CHECK FORGERY

Senator DECONCINI. Your budget justification, under check forgery statistics shows that in fiscal year 1991 the Service received 61,000 cases and that you closed 60,000 cases. In fiscal year 1992, your budget states that you received 44,000-plus cases and closed 45,000. To what do you attribute such a large decrease in forgery cases in fiscal year 1992 compared to fiscal year 1991?

Mr. MAGAW. This was a case of two or three things. A number of referrals were sent to us by Treasury. We're doing a number of things in terms of looking at each one of these check cases to see if it can be closed administratively. In other words, if there is nothing there, we really don't want to waste investigative money. We are trying to sort things out to see what we are going to investigate and what we aren't.

In terms of making that changeover, the influx of 20,000 was part of a change-of-operation phase for us. Where some of those cases would have been referred out to be investigated in past years, we now close those cases administratively in terms of trying to do things beneficially when there are no leads. So in that process of changeover, some of those statistics were inconsistent.

Senator DECONCINI. So this is a one-time trend and you don't expect it to continue?

Mr. MAGAW. That's correct.

FINANCIAL INSTITUTION FRAUD

Senator DECONCINI. Your testimony states that the Service had a large increase in the number of financial institution fraud cases investigated and the number of arrests made in fiscal year 1993. Again, I would like to commend the Service for a job well done.

With the RTC authorization expiring at the end of this fiscal year and your authorization to investigate these cases linked to the existence of the RTC, do you see any need for the Service to continue to undertake investigations in this area?

Mr. MAGAW. Yes, I do.

Under Treasury, those institutions that are regulated by Treasury, Mr. Chairman—there are clear guidelines and clear enforcement jurisdictions that we would like to have permanent authority to investigate. The reason we would like to do that is that we feel that if we can work with Treasury and the banking institutions, those large number of fraud cases that are referred to us—there have been 2,500 referred in the last couple of months—can be constructively investigated. At the same time, along with the banking institutions, we can make recommendations as to how loopholes can be closed so that we won't have continual violations.

Until we address that problem, fraud in the banking or financial institutions is not going to go away.

PROTECTION OF PRESIDENT ARISTIDE

Senator DECONCINI. Going back to protectiveness, I couldn't help but notice the amount of time you put in in protecting President Aristide of Haiti. You don't have any idea how long that is to continue, I suppose, just so long as he is here.

Mr. MAGAW. His protection will last as long as he is here. He has chosen to stay in this country for his safety and is also dealing with our Government officials on behalf of Haiti. We don't anticipate that that is going to end soon.

Senator DECONCINI. Do you think it is appropriate for the agency to do long-term protectiveness like that?

Mr. MAGAW. The way the statute is set up now, he is still recognized as a head of state.

Senator DECONCINI. As long as he is recognized by us, you have no alternative?

Mr. MAGAW. That is correct.

FTS 2000 CONVERSION

Senator DECONCINI. Last year, you received a waiver to convert to the FTS 2000 system until they resolve the issue of secure transmission.

Has GSA resolved the access security problem with the FTS 2000 network? If so, has the Secret Service converted?

Mr. MAGAW. They are still working on the issue with Treasury. We are working toward getting those security problems resolved. We are not there yet, but we are making progress on it. We feel that it will be resolved.

Senator DECONCINI. You are showing a reduction of $1.3 million in fiscal year 1994 associated with the reduction in billing of the FTS 2000 system, are you not?

Mr. MAGAW. Yes; because in each area that we can convert, where there is no security question, we are converting.

CONSOLIDATED BUILDING

Senator DECONCINI. Mr. Director, last year we authorized and appropriated $150.6 million for the Secret Service headquarters building. Can you give me a status report on where the Secret Service and GSA stand on their headquarters?

Mr. MAGAW. We certainly do appreciate that appropriation, too, Mr. Chairman. It is my understanding that GSA and our people are looking at a number of sites, including the building we are presently in.

Once the evaluation is made as to which best suits the needs of the Service, then that site will be selected. We expect the site to be identified shortly with actual purchase being accomplished late summer or early fall.

Senator DECONCINI. So you think you may get moving on it this year?

Mr. LEE. One of the hangups still is—the congressional authorization talks about an ownership by the Government itself. The owners of the building we are housed in now are trying to influence the system to cause a leasing option to be considered. That has the potential to delay the process. If that gets into the process, there is the potential where the whole competition would have to start over, which could cause as much as a 12-month delay.

We are hoping that the site selection process can be completed by the end of next month.

Senator DECONCINI. Did the present owner respond to the bid?

Mr. LEE. Yes; but his offer is considered to be nonresponsive because he is coming in with a leasing option that following a period of 10 years the Government might purchase it.

Senator DECONCINI. Why is GSA looking at it if they came in after the bid?

Mr. LEE. It's part of the process in terms of an unsolicited proposal where they consider all options. Based upon some of the conversations that have occurred all along in this process, there has been particular interest by all parties that all offers be considered.

Senator DECONCINI. What does the Service want? Do you want to be permanently located there?

Mr. MAGAW. We just want a consolidated building. The building we are in now would meet our needs in terms of size, space, and parking. We would have to do an awful lot of remodeling inside because of the elevators and the electrical equipment and things like that.

Senator DECONCINI. So that is satisfactory?

Mr. MAGAW. That is satisfactory. All we want is an equal——

Senator DECONCINI. What is the cost?

Mr. LEE. In terms of net usable space, their offer is for 454,000 square feet of space. The need for the Secret Service consolidation is about 350,000 square feet. So the building is too big.

Senator DECONCINI. How much would that building cost? Do you know?

Mr. LEE. I don't know. The difficulty for GSA is that the owners of that building are trying to respond to a proposal that is——

Senator DECONCINI. The owners don't want to sell? Is that the situation?

Mr. LEE. That is the problem.

Senator DECONCINI. What would it cost to lease? Do you know?

Mr. LEE. It is a differential between $10 and $20 million.

Senator DECONCINI. It would cost more to lease?

Mr. LEE. That is correct.

There are consultants involved with the owner that are working the process. So hopefully the issue will come to some resolution.

Senator DECONCINI. I don't see how you could lease it. There is no way you could justify leasing it for $10 million more, could you?

Mr. LEE. No; and it could only be achieved if the Congress was convinced to change the authorization to allow for a lease.

Senator DECONCINI. So why is GSA fooling around with the lease?

Mr. LEE. There is a lot of by-play between people who have a position of authority who influence the process.

Senator DECONCINI. I see what you are saying.

Mr. MAGAW. It is really backing us up against a timeframe, too, because 1800 G St. and the other buildings housing our headquarters operations expire in 1995. So, as you can see, we are working on a tight schedule.

Senator DECONCINI. Does GSA give you an appraised value of that building?

Mr. LEE. That's what they are doing now. They are trying to analyze the owner's offer to put it in the same terms as the other offers. They are trying to make apples to apples.

Senator DECONCINI. It is obviously a good location for you.

Mr. MAGAW. It is a perfect location.

MINORITY AND WOMEN HIRING

Senator DECONCINI. Last year, GAO reviewed the minority and women hiring and promotional practices within the Federal law enforcement agencies. This study included Justice, Treasury, and Postal Inspection Service. I have grave concern over GAO's finding of under-representation of women at the higher grade levels, especially in the senior levels of policymaking positions.

The most shocking finding was that out of 342 senior executives within the Criminal Investigation Job Service there were no white or minority women among those 342 senior executives. I believe that your service has 39 SES positions. How many are women?

Mr. MAGAW. Right now, we have one, sir.

Senator DECONCINI. And how many of the 425 GS–14's and GS–15's are women?

Mr. MAGAW. I wouldn't be able to give you that off the top of my head, but the GS–15's would certainly be somewhere in the area of five. The GS–14's are a little higher than that.

Senator DECONCINI. What are you doing, Mr. Director, to ensure that women in the Secret Service have equal access to higher grade levels.

Mr. MAGAW. In that GAO report, they feel that although we as an agency in law enforcement got started fairly late, we are on the right track now. We have a development program in which women and all minorities are participating. I meet quarterly with each mi-

nority group, including the women, so we are developing a program. For those that have the necessary time in and that have provided the proper experience, we are trying to move them into the promotional tracks.

They are the ones that tell me they don't want to correct a situation that got a slow start by jumping them ahead or not allowing them to compete. All they want to do is compete on equal terms. Each of these groups tell me that we are going the right direction and we are moving at the proper speed.

I just selected a new group of 17 SES candidates. There were three woman in that group and also one minority male.

Senator DECONCINI. We would like to encourage you to continue that.

Do you have a policy that you have adopted recently on this subject matter?

Mr. LEE. Yes, sir.

Senator DECONCINI. When was that adopted?

Mr. LEE. It was just updated in the last month or so, but it has been in effect the last few years.

Senator DECONCINI. May we see that, please?

Mr. LEE. Yes.

[The information follows:]

CAREER TRACK PROGRAM/EQUAL EMPLOYMENT OPPORTUNITY

It is the policy of the U.S. Secret Service to continually affirm a program for equal opportunity in employment and personnel operations based upon merit without regard to race, color, religion, sex or national origin. This policy applies to appointments, assignments, career development, training, promotion, and to any other action or situation affecting employment status in this service.

In furtherance of this policy, the U.S. Secret Service in 1992 revised and promulgated service-wide its career track program (CTP) which is considered an integral part of agent development and is intended to operate in conjunction with programs and training designed to develop potential managers. There are three (3) basic phases of the CTP: the investigative phase; the protection/Washington, D.C. phase; and the senior agent phase.

In every instance, agents join the Secret Service and are assigned to a field office as a criminal investigator. Whether the initial assignment is to a large, medium, or small office, it is anticipated that every agent will serve in a large office prior to concluding the investigative phase of his/her career development. During the second phase, the agent is reassigned to a protective division within or outside of the Washington, D.C. area. At the third phase, the Secret Service has satisfied its obligation to develop an agent as a criminal investigator with protection experience. The agent may choose to take advantage of that experience by selecting an available position in a preferred field office or elect to consider a reassignment that provides an opportunity for management development and advancement.

The Secret Service provides developmental opportunities for all agents. In order to be assured that every employee is being given a broad spectrum of responsibilities within a particular assignment, the special agent in charge monitors squad rotations and other significant assignments. In addition, all agents receive developmental assignments such as jump team leader, group leader, shift leader, assistant detail leader, etc., to prepare them for advancement into supervisory positions.

Also, a formalized individual management development program is made available to every GS–13, GM–14, and GM–15 special agent within the Secret Service. Individual development training plans (IDTP's) for each grade level have been developed and are routed internally for management approval. The goal of this program is to insure that all employees are afforded similar training and developmental opportunities to provide for their future advancement into supervisory and/or managerial positions.

There are no current career path requirements for promotion to a management position or for promotion to upper management levels. And finally, for the past several years, my staff and I have been meeting with representatives of women and

other minority groups in order to discuss issues such as recruitment, retention and/or promotion of these employees, and other relevant concerns.

ADMINISTRATIVE OVERHEAD REDUCTIONS

Senator DECONCINI. Senator Bond.

Senator BOND. Thank you, Mr. Chairman.

I would agree with the concern expressed by the chairman over the ability to carry out your responsibilities with the staffing cuts. Let me turn to the administrative side.

I didn't catch this. How do you plan to make your administrative overhead reductions?

Mr. MAGAW. Primarily in the area of supplies, equipment, and rentals.

A lot of other agencies can take it out of travel and those kinds of things.

Senator BOND. Right, but that is the basic part of your business.

Mr. MAGAW. Yes.

Senator BOND. Any significant impact on operations from these cuts?

Mr. MAGAW. I think this year we can operate well, but it will be the next 3 years as we cut 11 percent when we will have a problem. We will have to take all of that out of the one-third of our budget that is not personnel costs and it will be a major obstacle to overcome for us.

FTE REDUCTIONS

Senator BOND. That is something that we may want to visit a little more.

On the other reductions, you said that basically the reductions in staff would come through attrition. Do you have a free hand to shift people around on attrition? Are there any constraints? If a disproportionate number of people retire or resign out of one area, do you still have the freedom to replace much of the staffing in those areas and take cuts out of the others?

Mr. MAGAW. We are trying to be very careful to see that we're able to do that. Although every time you move someone—we only have so many planned moves per year. Part of this reduction would be in taking some of those moves. For instance, if we had 300 moves planned for the agency this year, we would now have 200——

Senator BOND. Could you review your role in the savings and loan investigations?

FINANCIAL INSTITUTION FRAUD

Mr. OPFER. With the new internal referral system of the financial institutions that are regulated by Treasury, we are able to get a snapshot of the problem areas. For example, things that were never reviewed before—there are about 3,000 cases that will be referred concerning alleged criminal activity to either OTS or OCC. It gives us an opportunity to look at all those nationwide.

Where a repetitive type of thing which may not have been noticed out from a normal referral before, we can now make an association because we are looking at each individual case. For exam-

ple, we could run the State of Pennsylvania and see that that same loan officer had been involved in a number of transactions. That is the type of approach.

We don't see a decrease in this area. We are trying to concentrate our resources as economically as possible.

To date, we have investigated approximately 1,200 cases in the financial institution area. That would be mostly from the banks and savings and loans. But Bob Rasor is in charge of our financial institution fraud division and actually created our program.

Bob, can you elaborate a little more on what we're trying to do with that?

Mr. RASOR. Yes; I think that pretty well covers it. It is just a matter of looking at the problem and trying to take existing resources at the departmental level and within the Secret Service and putting them into a proactive program that will not only take care of the current problems, but suppress future problems. There are a number of ways of doing that and we think we are well on the way to developing programs that will do that.

Senator BOND. A couple of years ago I tried to impress upon the then Attorney General the need to establish coordination within the Department of Justice so that the criminal prosecutions wouldn't be stepped on by the civil investigations. Subsequently, I gather that some coordinating effort was established. How do you work with the Department of Justice, the FBI, and the U.S. attorneys? How do you decide who gets what?

Mr. RASOR. Fundamental to our program, particularly on the civil and criminal issue, is that by staying in-house within the Department and dealing with OTS and OCC, which we have done continually since we started the program, we will well be able to handle that civil/criminal friction. Most of the time, the best judgment on a case may be to go after the person civilly as opposed to criminally, or it may be the other way around. It just depends upon which is the best system to use to get the desired results.

Relative to coordination, we are satisfied with our arrangement because we have not had a problem since we started the activity. Each time we open a case in a particular district, the process that we use is that the field office reviews the case and makes a determination as to whether it is a good criminal case to work. We sit down and discuss it first with the U.S. attorney to make sure that they have the time and resources to dedicate to it.

Once we get the concurrence that the U.S. attorney wants a case worked in the district, we notify the local FBI office and say we have a case in this particular area, to make sure that there is no duplication of effort. That seems to work well. We have not had a problem.

Senator BOND. Does that cover all the cases, or do you find that there are cases that are initiated without involving you in the savings and loan area?

How many cases are initiated by the FBI?

Mr. RASOR. There are two independent programs.

Senator BOND. But how does one hand know what the other hand is doing?

Mr. RASOR. Just in that way that I explained to you.

Senator BOND. You concur with them. How do they work with Treasury?

Mr. RASOR. We pick it up by the fact that we are going to the U.S. Attorney's Office and saying we have a case, a target, and an institution. One of the checks in that system is the U.S. attorney. They look at their particular roster for that district to make a determination as to whether an activity is open in that area or not.

The second check would be if a case was already open by another agency, we would pick that up and notify the other agency, particularly the FBI.

Senator BOND. But that is only when you initiate it. To what extent do U.S. attorneys and the FBI confer with you? Or is their contact solely with the OTS, et cetera?

Mr. RASOR. No; it is a back-and-forth exchange. Certainly, you have to remember that this is a concurrent jurisdiction. We have been doing that jurisdiction for about 2.5 years now. There was a large base of cases already in existence before we came into the game.

The third check would be for us to make sure that something had not started predating what we were doing. As I said, to our knowledge we have had no problems on coordination.

Senator BOND. Maybe I will turn back to the Director and ask, Does it make sense to have two independent concurrent operations?

Mr. MAGAW. There are two answers to that, Senator.

From our point of view, we need to continue to be a viable investigative agency and at the same time a protective agency. They work together.

This is a problem throughout the country and it is a very serious problem. Where we can be helpful, we want to be. We don't intend or try at all to usurp the FBI or their jurisdiction. We just want to be helpful. I think we have proved that we can be helpful and make it work together with the U.S. attorneys, with the judges, and with the system.

We would need as we go along, though—because there is a sunset clause on our jurisdiction and it will go away in a year or so—this jurisdiction concerning Treasury referrals, working with the banking institutions to correct the core problem, at the same time we conduct an the investigation. We think it fits. We are under Treasury.

We sometimes wonder how that got away from Treasury enforcement bureaus like ourselves and moved over to Justice. But history doesn't reveal how or when that happened, and we still feel that we can be helpful and that is what we want. We want to be as viable as possible.

COUNTERFEITING

Senator BOND. Your major investigative efforts in counterfeiting, as you mentioned previously—one of the problems I have found when I have tried to explain to people why we have to devote such efforts to stopping counterfeiting is that people say, Why does it make any difference?

Do you have a good and simple explanation of the economic ramifications of allowing counterfeiting to go unchecked?

Mr. MAGAW. As soon as the public loses confidence in this currency, then not only the United States but the world has a problem because millions of dollars go overseas and never come back. In fact, 80 percent of our $100 bills go over there and are never returned. It is the currency of choice, and yet the most easy to counterfeit.

If we don't control counterfeiting both domestically and internationally the integrity of our currency goes down. If that occurs, as it did during the Civil War—the country was about to fall apart financially, but they were able to stabilize the integrity, wipe out the counterfeiting, and maintain control of the currency.

To allow counterfeiting to go unchecked compromises the stability of the financial institutions.

Senator BOND. A ballpark guess as to what percentage you would say the $100 bills circulating in the United States today and worldwide are counterfeit?

Mr. MAGAW. Do you have a feel for that?

Mr. OPFER. It is very low, Senator.

Mr. MAGAW. We are domestically seizing 80 percent before it gets on the street or into circulation.

Our problem now is in foreign countries, Senator. Although there are laws in each of the countries—and a few of the countries have bilateral treaties—a good amount of high-quality counterfeit currency is appearing in some of the foreign countries. We have good working relationships with some countries and can go in and stop it very quickly, as we have done in Thailand, Colombia, and other places. There are some counterfeit bills showing up now in countries with which we, the United States of America, don't have such a friendly working relationship, and so it is more difficult.

Senator BOND. I appreciate your providing me with the articles on that question.

Thank you, Mr. Chairman.

Senator DECONCINI. Mr. Director, on that counterfeit, I think you said that it is the easiest currency to counterfeit. Is that true?

Mr. MAGAW. Yes, sir.

Senator DECONCINI. Why is it easier to counterfeit than the ruble or the peso from Mexico?

Mr. MAGAW. There are very few countries, by and large—when we talk about the 30 or so countries, there are very few of them that produce their own currency. As a result, over the years they have a lot less in amount of currency in terms of numbers and in terms of the total. So every few years, they can build new security features in it.

For the United States, on the other hand, the public has always looked at the greenback with great love and great affection, as it is looked at around the world. So over the years, we haven't changed the size of it, we haven't changed to multiple colors, and we haven't gone to the kinds of things that other countries have gone to. Therefore, not only is it the most popular currency, but now over the years it has become the easiest to counterfeit.

There are a number of security features that could be built in, but it is very expensive.

Senator DECONCINI. Are you saying that if we were like Italy where they change their currency from big bills, to small bills, and

colors—and maybe a lot of other countries do that, too—that that is harder to counterfeit?

Mr. MAGAW. Sure. You change the game plan on them. Every time you change the game plan, you change the techniques they have to go through to produce it.

Senator DECONCINI. Then there is a less use of that currency, of course.

Mr. MAGAW. That's correct.

Senator DECONCINI. That's very interesting.

SUBMITTED QUESTIONS

Thank you, gentlemen, very much. We appreciate you being with us this morning. We have some additional questions which we ask that you answer for the record.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR DeCONCINI

Executive Order 12837

Question: Your budget includes a reduction of $3,049,000 to meet the goals of the President's Executive Order on reducing administrative expenses by 3 percent. Can you tell me how you plan to meet this goal and what specific activities will be cut?

Answer: The Service has made a careful review of all of its administrative expenses. Those expense areas where the possibility of savings through better management appear most promising, were identified. By doing this review, it is hoped, and expected, that no current activities, per se, will be eliminated; and that the Service will be able to accomplish the mandated savings in administrative expenses by finding ways to do its job more efficiently.

The Service expects that much of the mandated savings will be realized in the expense areas of Rents, Communications and Utilities, and Other Services. In the former area, the Service will carefully review costs involved with copier rental. Also, telephone costs for both long distance and cellular service are expected to be reduced.

All Other Services that the Service is currently contracting for are under close examination, to determine whether what is currently seen as required can be accomplished at less overall expense. This includes areas such as work orders and renovations that are processed through the General Services Administration. Also, all maintenance contracts for the Service's personal computers are under review.

The Service will also be reducing some expenditures for supplies and equipment. The frequency of weapons training is being reviewed with a goal of achieving savings in ammunition costs. Also, more scrutiny will be given to some equipment purchases, especially for new furniture, by determining whether surplus equipment is available and adequate to meet the Service's needs.

Protective Detail for Former President Bush and Visit of Pope John Paul II

Question: Your fiscal year 1994 budget includes a reduction of $3,048,000 from 1993 activities which will not recur in fiscal year 1994 associated with the upcoming visit in August of Pope John Paul II and the newly created protective detail for former President Bush.

Can you please provide me with the specific amount of funding which was contained in your fiscal year 1993 budget for the Pope's visit?

Answer: There are no funds contained in the Service's FY 1993 Budget that are specifically earmarked to cover the extraordinary costs of providing protection for Pope John Paul II during his visit to the United States later this year. This is because knowledge of this visit was obtained subsequent to preparation of the FY 1993 Budget Request. The cost of protection for the Pope will be addressed by taking into consideration the savings associated with the FY 1993 FTE reduction.

Question: What is the estimated cost that will be attributed to the protection of Pope John Paul II during his visit to the Denver area?

Answer: The Service estimates that it will cost approximately $1.9 million to provide protection for Pope John Paul II during his visit to the United States this year; which, according to the latest itinerary, will be limited to the Denver area.

Question: Since you did not receive any additional funding from the Congress for a former President detail for former President Bush, why are you showing nonrecurring costs associated with the Bush detail?

Answer: The funding needed to cover a portion of the one-time expenses associated with the establishment of the former President Bush detail have been made available in FY 1993 with the reduction in FTE levels mandated by Executive Order 12839.

Question: Can you please give me a breakdown of what exactly these start up costs were for the former President Bush protective detail?

Answer: The Service estimates that one-time start up costs for the former President Bush detail will total $2.616 million, as detailed below:

Personnel transfers	$1,736,000
Travel	473,000
Equipment and renovations for the administrative office	147,000
Radio Equipment	138,000
Other Equipment	122,000
	$2,616,000

Question: Have sufficient funds been included in your fiscal year 1994 budget for the Bush detail?

Answer: No additional funding has been requested in the FY 1994 budget to cover the ongoing costs associated with providing protection for former President Bush. Alternative proposals are currently under consideration.

Protective Activities

Question: Last year we had a lengthy discussion on problems Congressional members have had when they attend functions with the President. You stated that you were working very hard to make sure that a situation like the Codel Roe visit to Texas does not happen again. What steps have you taken since last year to eliminate difficulties in this area?

Answer: Since this incident, I have taken the following actions to avert similar situations:

- We sent a message to all of our employees reminding them to be sensitive to the needs of other government officials who are in attendance at our protective sites. We re-emphasized this point at two subsequent supervisor's conferences.

- Through our Congressional Affairs Office we have set up various mechanisms by which the Service will be advised of Codels, and we in turn will assign an agent to the Codel in order to facilitate their movement during the visit.

Question: Have there been any additional problems with Codel's since last year's hearing?

Answer: Since our last hearing there have been no incidents involving Codels that have come to the attention of the Service.

Question: Mr. Director, you are well aware that I, as well as others, sometimes question the amount of money and other resources that the Service expends on the protection of the President, Vice President and their families.

Has the Service evaluated methods to reduce protection or save money without risking the physical safety of your protectees?

Answer: We continually evaluate our protective operations to ensure that we are providing the proper level of security in the most cost effective manner.

Investigative Activities

Question: Are you projecting a decline of the number of cases your agents are investigating in the financial institution fraud area?

Answer: No. The Secret Service is expecting an increase in financial institution fraud (FIF) investigations. This expectation is the result of language contained in the 1992 Senate Appropriations Sub-committee report mandating that the Department of the Treasury dedicate adequate law enforcement resources to investigate FIF investigations. On December 11, 1992, the Secretary of the Treasury ordered the Treasury's bank regulators, the Office of the Comptroller of the Currency (OCC) and the Office of Thrift Supervision (OTS), to forward copies of all criminal referrals generated by them to the Financial Crimes Division of the Secret Service.

To date, the Secret Service has received approximately 3,000 criminal referrals from Treasury regulated institutions. The OCC and OTS average approximately 33,000 criminal referrals annually.

Question: If there should be a decline in financial institution fraud cases what types of investigations would the agents currently working the financial institution fraud cases, be reassigned to?

Answer: As indicated above, the Secret Service does not anticipate a decline in its FIF cases. If the FIF caseload did diminish, the Secret Service would need to reevaluate its investigative priorities.

Question: How many agents do you currently have trained to investigate financial institution fraud and do you plan on training any additional agents in the future?

Answer: To date, the Secret Service has 220 special agents trained in the area of FIF. Although the Service is not currently sponsoring FIF training, agents are attending Department of Justice sponsored FIF training seminars. The Service's Financial Crimes Division and Office of Training, are in the process of formulating a training class using the expertise of OCC and OTS examiners.

Question: The agents that are trained, do they exclusively work financial institution fraud cases?

Answer: In many field offices those agents trained in FIF investigations are exclusively working FIF investigations. However, in many small and medium offices the caseload does not justify agents trained in FIF matters to only work those types of cases.

Question: I know there have been considerable problems in the past with the FBI cooperatively working with the Service on financial institution fraud cases and referrals to your agency. Has this improved at all and if so, can you tell me if you are receiving referrals from the FBI and U. S. Attorneys?

Answer: Since November, 1990, when the Secret Service received jurisdiction to investigate frauds committed against federally insured financial institutions we have received approximately 205 criminal referrals from the FBI. The majority of the referrals received from the FBI were not opened for investigation based on the content of the referral or the lack of prosecutive merit.

The Secret Service has received approximately 150 FIF criminal referrals from the United States Attorney's Office since November, 1990.

On December 11, 1992, the Secretary of the Treasury ordered that Treasury bank regulators, the OCC and OTS, forward copies of all criminal referrals to the Financial Crimes Division of the Secret Service. Through the coordinated efforts of regulators and law enforcement officials responsible for a consolidated Treasury financial fraud management program, the maintenance of healthy financial institutions and systems can be achieved.

Question: In the area of counterfeiting, have the new low-level security features you testified about during last year's hearing been implemented in the $20s, $10s, and $5s, and if they have not, when do you anticipate implementing these changes?

Answer: At present, there are two additional security features in the currency. There is a polyester security thread embedded in the paper to the left of the federal reserve seal. The security thread is printed with the letters USA, and the note's value, e.g., USA 10, USA 20, USA 50 and USA 100, in a repeated up-and-down vertical pattern, and is visible when viewed through transmitted light. The other security feature is the microprinting of the words "THE UNITED STATES OF AMERICA" around the portrait. This currency with these added security features was introduced into circulation, by denomination, as follows:

$100	-	September, 1991
$50	-	November, 1991
$20	-	April, 1992
$10	-	November, 1992

The $5 note is in production and is expected to be released in late 1993 or early 1994.

Question: In last year's hearing you stated that new security features were being implemented in $100s and $50s. Have you noticed a decline in counterfeiting of these notes due to these new security features?

Answer: Presently, because of the large number of old series Federal Reserve Notes (FRN) still in circulation, there has not been a decline in the counterfeiting of $100 notes. Hopefully, as the older series notes are removed from circulation, a decline in the counterfeiting of $100 FRNs will be realized. The $50 FRNs are not counterfeited that often.

Permanent Change of Station Moves

Question: Your fiscal year 1994 budget contains an increase of $242,000 for permanent change of station moves. Is this increase to maintain current levels, or is this additional funding required for the transfer of additional employees?

Answer: The $242,000 requested in the FY 1994 Budget is to maintain current levels.

Question: How much is contained in your base budget for PCS moves and how many moves does this cover? How many additional moves will occur if we provide the requested additional $242,000.

Answer: The Service's base budget for benefit payments relative to permanent change of station moves totals approximately $9.0 million. This $9.0 million base would allow for approximately 175 moves. No additional moves will occur with the additional $242,000; these funds will cover only the expected increased cost of making the 175 moves.

Travel Costs

Question: Your fiscal year 1994 budget contains an increase of $987,000 for increased costs of travel and transportation of persons. Your budget also shows a net reduction of $1.989 million in travel associated with the elimination of the candidate/nominee protection program. Can you tell us on what basis you believe you will require additional travel funds for protection purposes?

Answer: The additional funding requested is to cover expected increased costs of travel in FY 1994, not for an increase in the overall level of travel.

Question: How much of your travel budget is associated with other investigative cases?

Answer: Approximately 5% of the travel budget goes for meeting the Service's investigative mission.

World Trade Center Bombing

Question: Could you relate the losses suffered by the Service as a result of the World Trade Center bombing?

Answer: The edge of the crater created by the bomb detonated at the World Trade Center last February, was only 80 to 100 feet from the Service's controlled access parking area. At the time of the bombing, 86 investigative sedans and 11 protective vehicles were parked in this area. These vehicles sustained varying degrees of damage. A large percentage of these vehicles were either totally destroyed, or sustained major damage. Of the 11 protective vehicles, five were leased, and will be replaced at no cost to the government.

This parking area, which also provided storage space for ammunition, evidence, supplies and equipment, was secured by fencing and an electronic door. This fencing and the door were destroyed, as well as most of the supplies and equipment stored within. In addition, security equipment, such as video cameras and alarms used to monitor this area, were destroyed.

The total cost to the Service for replacing the vehicles, fencing and door, items in storage, and the security equipment, has not yet been determined, and is dependent upon final decisions regarding insurance, and determinations as to which entities are responsible for covering which losses.

QUESTIONS SUBMITTED BY SENATOR BOND

Personnel Reduction

Question: I would like to spend a little time on the personnel reduction side. Your tables state that your FTE level will be 69 below FY 1993 levels; however, it appears that your FTE levels are actually 115 below the FY 1993 levels.

Could you clarify this difference?

Answer: The tables in the Service's FY 1994 Budget Request reflect the FTE ceiling for FY 1993 subsequent to implementation of Executive Order 12839. This order mandated lower government personnel levels beginning in

FY 1993. This Executive Order resulted in a reduction of 46 FTE to the Service's original FY 1993 FTE ceiling. Prior to this Executive Order, the FTE ceiling for the Service was 4,616, or, as you indicate, 115 higher than the level for FY 1994 contained in the FY 1994 Budget Request.

Question: How does this translate to positions?

Answer: This reduction of 115 FTE is equivalent to reducing 115 full-time positions.

Question: How will you make your reductions?

Answer: These reductions will be made through a program of managed attrition. Given the current attrition rate, the Service believes it is possible to achieve this reduction without severely affecting the ability to keep positions filled in those areas most critical to program operations.

Question: How many vacancies do you currently have?

Answer: The Service currently has approximately 20 vacant positions.

Question: Will the permanent reductions come from these vacancies?

Answer: The permanent reductions may or may not come from these specific vacancies, depending upon the work associated with each vacant position.

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF ADMINISTRATION

STATEMENT OF PATSY L. THOMASSON, DIRECTOR

ACCOMPANIED BY RON R. RASMUSSEN, DIRECTOR, FINANCIAL MANAGEMENT DIVISION

INTRODUCTION OF WITNESSES

Senator DECONCINI. Our next panel of witnesses will consist of representatives from the Executive Office of the President. We are pleased to have testifying on behalf of EOP Patsy L. Thomasson, Director, Office of Administration and Ron R. Rasmussen, Director, Financial Management Division, Office of Administration.

INTRODUCTORY REMARKS

Welcome Ms. Thomasson. As Director of Administration you have a job where you will be expected to have all the answers. Judging from what I have seen of you already, I have every confidence that you will be up to the challenges which lie ahead. I want to say for the record before I start that it is always tempting to use the White House budget as a target for political discontent. There are some who think the White House should set the example for restraint at the Federal level and I guess I would say that I would have to agree with this view.

However, as chairman during the past 6 years during Republican administrations I must say that I saw and approved a number of increases requested for the White House. And I always tried to be impartial in consideration of those budget requests. And, with very minor exceptions, I cannot recall any efforts in this committee to reduce those requests or be partisan in its approach to the White House budget. It is my sincere hope that we can continue this trend now that there is a Democratic administration in the White House.

For fiscal year 1994, the budget request for the 9 EOP accounts on which you will testify today, the budget request totals $83.798 million or a 7.6-percent increase above the fiscal year 1993 enacted level. In addition, the committee has pending before it a supplemental request totaling $11.86 million for a variety of White House, Office of Administration, and Vice Presidential requirements. We plan to discuss both of these requests in some detail this morning. In the interest of time, I will ask that you summarize your opening statement and we will insert your longer statement for the record.

I now yield to the Senator from Missouri for any opening statement he has.

STATEMENT OF SENATOR BOND

Senator BOND. Thank you very much, Mr. Chairman.

I join in welcoming our witnesses to today's hearing. I certainly agree, again, with what the chairman has said about our desire to assure that the White House has the necessary resources to perform its duties. I am particularly interested in making sure that they have the upgraded equipment needed to bring the telecommunications and other operations at least into the 20th century, which has been identified as a real need.

But I believe that we ought to have some candid discussions about the request for the Executive Office of the President. We have heard and read that the President has indicated that he is going to reduce the White House staff by 25 percent, yet the budget submitted to this subcommittee has an increase of 7.6 percent over the amount appropriated for this fiscal year.

Almost every office is being asked to reduce FTE, yet for each account an increase in funding is being requested. On top of that, we are being asked to approve a supplemental of $11.7 million and 50 additional FTE for this fiscal year. Since the fiscal year is one-half gone, I guess that could put as many as 100 people onboard if it were approved right away.

Mr. Chairman, I am having some difficulty reconciling press reports and these proposals. As I read it, if you add the supplemental and the fiscal year 1994 request, the President is asking for an increase of $10.9 million for the White House, an increase of $4.7 million for the Office of Administration, and an increase of $227,000 for the Vice President's office.

I think these are significant increases and it doesn't really square with what I have heard about reduction. In fact, many people have asked how the staff reductions will be made. We sought information on it, Mr. Chairman. On February 18, I wrote to the President asking that the appropriate staffer answer some of the questions.

I believe you have a copy of that letter. I have not yet received a response. I am sure that has come to your attention by now. I believe our counterparts in the other body asked several of the same questions during a hearing last month and they don't have the answers yet.

I can appreciate the difficulty in starting up an operation. I have been involved in a number of transitions—both going and coming—and that is a good way to increase the consumption of aspirin or aspirin substitutes. But Mr. Chairman, I believe there are some real questions. I believe we need to get everything straightened out, get the record clear, and make sure that we understand what we're doing before we move forward in this area.

I do have a number of questions, and I am sure that some of the questions might be better to submit for the record and allow our witnesses to go back and look up the details if they don't have them today.

Senator DECONCINI. Senator Bond, thank you.

I have talked to Ms. Thomasson about this situation and the concerns that you have raised here. I have some questions regarding

it and I think she is prepared today to lay out her statement and the justifications for this.

I have talked to the White House a number of times expressing what you have expressed. They certainly have indicated to me that they very well may be subject to some criticism, but they are also receiving criticism—at least from what I get—for not being able to cope with mail and the inquiries from Members of Congress. I think it is an average of 9 to 11 days when a letter is sent down there. The mail has increased threefold or fourfold from the last President.

Maybe those are not justifications, but I think we will have a candid discussion and we want to work with the White House staff and the administrative staff to provide the necessary services.

Ms. Thomasson, you may proceed with whatever statement you have. You may summarize it if you would like because I think there are a lot of questions here that we would like to get up on the table and give you the opportunity to make a full explanation.

STATEMENT OF PATSY L. THOMASSON

Ms. THOMASSON. Thank you, Mr. Chairman and Senator Bond.

I will make my opening remarks a little more brief than they are prepared and will submit my full remarks for the record.

If you would like, I will give my opening remarks for the supplemental and we can get that out of the way.

Senator DECONCINI. That will be fine.

My name is Patsy Thomasson. I am a Special Assistant to the President and the Director of the Office of Administration in the Executive Office of the President. I am the first person from Arkansas to serve in this role. I have lived most of my life in Arkansas, Senator Bond, but I did live in your fine State for a year when I was getting my master's from the University of Missouri.

I have with me Mr. Ron Rasmussen, Director of the Financial Management Division of the Office of Administration.

We are here to discuss nine accounts with you today. As Senator DeConcini has just said, the budget for fiscal year 1994 for these accounts is $83.793 million, a 7.6-percent increase. This increase is primarily attributable to correspondence system upgrades and postage increases to handle the huge volume of mail at the White House; to new technology efforts to allow greater outreach with budgetary efficiency; to new technology burdens within the Office of Administration; to the reordered structure of the Office of Policy Development and its resultant higher level staffing and greater travel expectations; and finally, to an increase in personnel compensation on the National Security Council staff to increase its professional staff so that the number of detailees from other agencies can be reduced and to allow the National Security Advisor to draw upon private industry and the academic community for a more diverse core of foreign policy experts.

The budgets are driven by two primary events. The first is the reorganization of the White House and Executive Office of the President announced by the President and detailed by Mr. McLarty on February 9. The second is the astounding response that the administration is currently receiving from the public in the form of

letters, telephone calls, faxes, and demands for the President's time.

Briefly, the highlights of the budget are as follows:

The White House budget increases 10 percent over its fiscal year 1993 funding level, mainly due to the massive volume of mail currently being received and expected to continue over the next fiscal year. Also in this increase are funds for satellite usage time to allow more efficient outreach to the American public.

The Office of Administration includes a large reduction in staff, but has an increase in budget of $412,000. This dichotomy is basically attributable to replacement of computer data storage on the mainframe computer in the amount of $840,000-plus.

The Office of Policy Development has undergone a significant restructure with the OPD being quite different than it has been in the past. Now we will have three policy pods in the Office of Policy Development: the National Economic Council, the Domestic Policy Council, and the Office of Environmental Policy. The size of the staff is basically the same, but it is being distributed differently with more policy people as opposed to staff personnel.

The National Security Council budget request for this year is the same in the number of FTE's as in fiscal year 1993. Compensation, however, increases over the fiscal year 1993 level in order to facilitate the shift of expertise from detailees to the regular staff at the National Security Council.

This concludes my remarks with regard to the overall picture of the Executive Office of the President. I would like to reemphasize that the Executive Office has undergone and is undergoing a significant reorganization. This reorganization, involving significant restructuring and reprioritization, will by October 1 reduce staff across the board by 25 percent—which is a reduction of 350 people, down from 1,394 to 1,044—and over the course of fiscal year 1994 will save the American public $10 million. Some agency requests increase and some agency requests remain constant, but overall, the EOP cuts are real and the budgetary savings are real.

With regard to the supplemental, since we took office barely 3 months ago—I have been there just over 1 month now myself—this administration has incurred unbudgeted and unexpected expenses related to a number of issues. First of all, unlike fiscal year 1989, when additional funds for transition-related expenses were appropriated, no funding for transition costs were appropriated in fiscal year 1993.

In the first 2 weeks of the Clinton administration, nearly $1.3 million was spent to meet the obligations for paying lump sum annual leave to departing employees of the previous administration and to comply with court orders in two unrelated legal matters. An additional $225,000 was spent rerouting phone lines and adding fax machine lines to meet the needs of the new employees.

Second, it is the President's responsibility to appoint nearly 5,000 people to confidential policymaking positions throughout the Federal executive branch. The administration has undertaken to complete the appointment process with temporary full-time employees compensated by the White House Office rather than with detailees or other Government employees. These appointments are critical to establishing the tone and tenor of this administration. However,

compensating these individuals has severely strained our financial resources in the White House Office.

Since January 21, the American people have responded overwhelmingly by phone, by mail, and by fax to the President's call for their active participation in his administration. This is not unlike President Clinton's days as Governor of the State of Arkansas when more mail than ever arrived at the Capitol. However, it is very unlike the volume of mail and quantity of telephone traffic received by the White House in previous years.

The President welcomes these letters, and in fact asks for them. He is also very committed to responding to them. The resources the White House has to do this, however, are insufficient to fulfill his commitment. In addition, requests for the President's time are escalating. Nevertheless, the President is committed to meeting and talking with as many people as he possibly can.

This commitment can be made using electronic telecommunication satellite links and interactive videos at a lower price over time than actual travel costs. The investment will reap substantial rewards over time and will establish a telecommunications framework for not only this President, but for all future Presidents, too.

Since taking office, the administration has undertaken a thorough, careful assessment of the telecommunications and information resources currently available to support the President, his advisors, and their staffs. In order for the President to meet the mandate of the American people, he and his advisors require a decentralized, distributive information processing system capable of manipulating and refining large quantities of data. Therefore, it is necessary to make some conceptual changes to the infrastructure used to gather, store, and manipulate information.

As the common provider of information systems to the agencies of the EOP, it falls to the Office of Administration to design and install systems to meet the needs of our clients. Without these resources, the President's ability to address the concerns of the citizenry will be severely impaired.

In closing, the administration is still in its first critical months. The events and needs I have outlined above—in particular, the expenses associated with the transition and complying with the actions of the court—have placed significant demands on these three accounts and in practical terms have exceeded all discretionary resources. Without additional funds, the administration will face difficulty in its first year in meeting its obligations to the American people.

To conclude my remarks, the President has asked me to assure you both that he and his administration look forward to developing a very strong, close, and cooperative working relationship with the chairman, the members of the committee, and with the staff.

We will be pleased to answer any questions you may have for us.

PREPARED STATEMENT

Senator DECONCINI. Thank you very much, Ms. Thomasson. We have your complete statement and it will be made part of the record.

[The statement follows:]

STATEMENT OF PATSY L. THOMASSON

Good morning, Mr. Chairman and Members of the Subcommittee. My name is Patsy Thomasson, I am a Special Assistant to the President and the Director of the Office of Administration in the Executive Office of the President (EOP). I am honored to be the first person from Arkansas to serve in this specific role in the government. Since this is my first appearance before this Subcommittee, I would like to submit biographical information for the record.

Today, I have with me Mr. Ron Rasmussen, Director of the Financial Management Division, Office of Administration, Executive Office of the President.

It is my distinct honor to represent the Clinton Administration on nine Executive Office of the President accounts which include the Compensation of the President, the White House Office, the Office of Administration, Special Assistance to the President, the Official Residence of the Vice President, the Unanticipated Needs, the Office of Policy Development, the National Security Council, and the Council of Economic Advisers.

The fiscal year 1994 budget request for these nine accounts totals $83,798,000, a 7.6 percent increase over the 1993 authorized level for these nine accounts. The increase is primarily attributable to correspondence system upgrades and postage increases to handle the huge increase in volume of mail to the White House; to new technology efforts to allow greater outreach with budgetary efficiency; to new technology burdens within the Office of Administration (OA); to the reordered structure of the Office of Policy Development (OPD) and its resultant higher level staffing and greater travel expectations; and finally, to an increase in personnel compensation on the National Security Council staff to increase its professional staff so that the number of detailees from other agencies can be reduced and to allow the National Security Advisor to draw upon private industry and the academic community for a more diverse core of foreign policy experts.

Seven hundred and forty-seven full-time equivalent positions are requested, which is a decrease of seventy-four, or 9 percent. In addition, over the sum of these accounts, we will be returning 83 other government employees to their home agencies.

These budgets are driven by two primary events: The first is the reorganization of the White House and Executive Office of the President announced by the President and detailed by Mr. McLarty on February 9th; the second is the astounding response that the Administration is currently receiving from the public in the form of letters, telephone calls, and demands for the President's time.

Looking briefly at some of the highlights of these nine accounts:

The White House Office budget increases ten percent over its fiscal year 1993 funding level, mainly to account for the massive volume of mail currently being received and expected to continue over the next fiscal year. Also included in this increase are funds for satellite usage time to allow more efficient outreach without the need for additional (and more expensive) outlays in travel costs.

The Office of Administration's budget includes a large reduction in staff positions, but has an increased budget request of $412,000. This dichotomy is due to the significant cost to replace aging data storage equipment for the mainframe computer so that its usefulness to the EOP can be extended, as well as, requests to fund initiatives in information resources, information services, employee training, and publication services.

The Office of Policy Development has undergone a substantial reorganization with the new OPD structure differing considerably from the prior structure. For this reason, this OPD budget differs greatly from prior requests for this agency. In the new structure of OPD, the emphasis is on senior policy advisory staff. There is, consequently, an increase in the number of professional staff, which coupled with the extremely high level of experience brought into the National Economic Council staff, results in the increase in the personnel compensation request for this office in fiscal year 1994.

The National Security Council budget requests the same FTE level as fiscal year 1993, which is 60 full-time equivalent positions. The total requested for personnel compensation, however, increases over the fiscal year 1993 level in order to facilitate the shift of expertise from detailees to the regular staff and to allow the new administration to establish a National Security Council staff that draws on the most talented foreign policy professionals from around the United States and that reflects the intellectual diversity and foreign policy views of the American people.

This concludes my summary of the nine accounts for which I am testifying today, but before I end I would like to reemphasize that the Executive Office of the President has undergone and is undergoing a significant reorganization. This reorganization, involving significant restructuring and reprioritization, will by October 1 reduce staff across its baseline by 25 percent—which is a reduction of 350 people,

down from 1394 to 1044—and over the course of fiscal year 1994 will save over $10 million. Some agency requests increase and some agency requests remain constant, but over the whole of the EOP there are real staff cuts and real budgetary savings.

To conclude my introductory remarks, the President has asked me to assure you that he and his Administration look forward to developing a strong, cooperative working relationship with the Chair, the members and the staff of this subcommittee.

We will be pleased to answer any questions you may have.

Summary of Account Requests

COMPENSATION OF THE PRESIDENT

The fiscal year 1994 budget request for the Compensation of the President account is $250,000. This includes $200,000 for the President's salary and $50,000 for the expense account for his official use as authorized by Title 3 of the United States Code. There is no change from fiscal year 1993.

WHITE HOUSE OFFICE

The fiscal year 1994 budget request for the White House Office is $38,914,000, and 401 full-time equivalent (FTE) positions. This is an increase of $3,529,000 and a decrease of 7 FTE positions.

Upon taking office, the Clinton Administration undertook a careful and thorough review of all White House operations. The results of this review were used to develop the fiscal year 1994 budget request. From the first days of the campaign, Bill Clinton has been committed to reducing government and the White House Office is no exception. This budget request complies with the President's initiatives on federal employees' salaries and reducing administrative costs. However, several areas have been identified, where in order to provide an appropriate level of service to the Administration, a number of adjustments need to be made. These areas include correspondence, telecommunications, and information resources.

The American public has responded overwhelmingly to the new Administration: approximately 1.2 million pieces of mail have been received since the Inauguration and are being processed in the Correspondence Office; more arrives daily. There has been a comparable increase in telephone messages and fax transmissions to the White House; the switchboard and central fax lines have been jammed since January 20th. Finally, the President and his senior policy advisors have identified several information resources they need in order respond to the concerns of the citizenry.

In the case of correspondence, we anticipate that the President will receive 8 million pieces of mail annually. The much-needed investment in paper products and postage to respond to this volume of correspondence is nearly $2 million; postage alone constitutes 45 percent of the increase over the fiscal year 1993 appropriation.

In the past ten years, a veritable revolution has occurred in information management and telecommunications and as a result, the two are practically inseparable. President Clinton and his staff are committed to combining telecommunications and information technology in order to stay in touch with the American public.

Unfortunately, the telecommunications resources of the White House Office lack sufficient flexibility and capacity to effectively support the President in this arena. The amount of money needed to make this a reality is small, when compared to traditional correspondence expenses. Conversely, the benefit to the American people and to future presidents will be substantial. By the same token, a small investment in information resources used by the President and his staff will reap substantial rewards in their ability to respond to their constituency in a timely and informed way.

OFFICE OF ADMINISTRATION

The budget request for the Office of Administration (OA) for fiscal year 1994 is a total of $24,850,000 and 189 full-time equivalent (FTE) positions. This represents a decrease of 43 FTE positions and an increase of $412,000. This budget request is in accordance with the President's initiatives on federal employees' salaries and reducing administrative costs. Nevertheless, this request will provide OA with the essential resources it needs to meet the President's objectives for streamlining the federal government. In fiscal year 1994, OA will be "leaner, but more effective, and designed to work both hard and smart * * *."

To maintain a current level of services and support to the agencies of the Executive Office of the President will take a total of 98 percent of OA's aggregate request, or $24,345,000. The 98 percent will be allocated to four central elements: personnel compensation and benefits; rent to the General Services Administration for office space; data storage for the mainframe computer; and funding for contractual services for the Executive Office of the President Data Center. The remaining two percent, $505,000, will be used to fund initiatives in information resources, information services, employee training and publications services.

Although OA has always worked hard to provide the efficient, cost-effective administrative support and services our Executive Office of the President clients demand, the new Administration is seeking a more energetic approach to make sure that OA is proactive in meeting their needs. OA will continue to improve its ability to anticipate and meet those needs as well as to expand and enhance the range of services already available.

SPECIAL ASSISTANCE TO THE PRESIDENT

The fiscal year 1994 budget request for the Special Assistance to the President account is $3,270,000 and 21 full-time equivalent (FTE) positions. This is a decrease of 5 FTE positions and an increase of $120,000 of which $100,000 is for information management systems. This budget request is in full compliance with the President's initiatives on federal employees' salaries and reducing administrative costs. This budget request will provide the Vice President with the resources he needs to fulfill his statutory responsibilities and to support his efforts toward developing the President's initiatives.

Ninety-seven percent of this request will be used to maintain a current level of services to support the Vice President in his official role of providing assistance to the President. The remaining three percent will be used to upgrade the information management resources and capabilities of this office.

The Vice President, as an adviser to the President, is a visible, active member of the Clinton team. In addition to the statutory responsibilities of the job or those he fulfills through Presidential Directive such as serving as a member of the National Security Council, the Vice President has also taken on several unique trusts at the request of the President. With the Vice President's intense interest and concern for the environment, the President has asked him to take special responsibility for the organization of the Administration's efforts with regard to environmental policy. Under the Vice President's guidance, the new Office on Environmental Policy will ensure the integration and coordination of environmental policy with both domestic and economic policy issues.

Additionally, the President has asked the Vice President to take a leadership role in his "National Performance Review" initiative. As the leader of the National Performance Review task force, the Vice President will work closely with participants from across the government and the general public on specific recommendations for improving government services and reducing waste.

OFFICIAL RESIDENCE OF THE VICE PRESIDENT

The fiscal year 1994 budget request for the Official Residence of the Vice President is $324,000 and 1 full-time equivalent position. This budget request is in full compliance with the President's initiatives on federal employees' salaries and reducing administrative costs. The appropriation request is the same as appropriated in fiscal years 1992 and 1993.

This account provides for the daily operation of the Official Residence of the Vice President and the Second Family including utilities, household supplies, furniture and furnishings, and official representation activities.

UNANTICIPATED NEEDS

The budget request for this account is $1,000,000, as authorized by law in Title 3 of the United States Code.

As defined by Public Law 95–570, these funds will enable the President to meet unexpected needs in order to advance the national interest, national security, or national defense.

OFFICE OF POLICY DEVELOPMENT

The fiscal year 1994 budget request for the Office of Policy Development (OPD) is $5,122,000 and 40 full-time equivalent (FTE) positions. This is an increase of

$1,350,000. This is a decrease of the budgeted FTE's by 11; however, the number of actual FTE's on duty in this agency remains virtually constant at 40.

Under the Clinton Administration, the Office of Policy Development was thoroughly reordered. To achieve coordination in three vital policy areas, OPD has been organized into three distinct clusters: the National Economic Council, the Domestic Policy Council, and the Office on Environmental Policy.

Seventy-five percent of the total OPD budget request falls within personnel compensation. The newly constituted organizations advise the President on the formulation, coordination and implementation of economic, domestic, and environmental policy. They work in tandem with the National Security Council, the Council of Economic Advisers, the Office of Management and Budget, the Office of National Drug Control Policy, and with other offices in the Executive Office of the President. As well, the new OPD clusters work closely with the Cabinet Departments to ensure the formulation throughout the government of coordinated and integrated policy. It is with this purpose in mind, and to support the President's focus on domestic problems, that OPD is recruiting senior, highly experienced staff, including economists, business people, environmentalists, and academicians.

The remaining twenty-five percent of the budget request is distributed among several areas. First, there are increased office rental and utilities payments. Second, staff travel has been increased to reflect the new responsibilities in the international economic area and the environmental and domestic policy programs. Other services have been increased to provide for the acquisition of current economic statistics and databases to support the President's economic program. Supplies and equipment have been increased to provide for upgrades in computer equipment and software. And finally, an estimated $225,000 is included for the close-out of the Council on Environmental Quality.

The personnel request for fiscal year 1994 is for 40 full-time equivalent (FTE) positions. While this is a reduction in the number of authorized staff, it is not a reduction in actual FTE's in OPD. Actual staffing in fiscal year 1992 was 40 FTE's and the new Administration plans to maintain 40 FTE's in OPD. However, when taken together with the elimination of the Council on Environmental Quality (31 FTE's on board), this request does represent a significant reduction in staff. OPD is recruiting a higher level of experience and expertise to support the President's focus on the economy and domestic problems of the country; thus, the increase in personnel compensation and benefits.

COUNCIL OF ECONOMIC ADVISERS

The Council of Economic Advisers (CEA) fiscal year 1994 budget request is $3,420,000 and 35 full-time equivalent (FTE) positions. This is a decrease of $8,000 and 6 FTE's. This budget request is in accordance with the President's initiatives on federal employees' salaries and reducing administrative costs. The 3 percent reduction in administrative costs totals $12,000. There is an increase in rental payments to the General Services Administration (GSA) of $10,000 and a decrease in equipment of $20,000. Finally, a net increase of $14,000 in personnel compensation will fund an authorized level of 35 FTE's.

This request will provide funding to CEA to fulfill its mission of analyzing the national economy and its various segments, advising the President on economic development, recommending policies for economic growth and stability, appraising economic programs and policies of the federal government, and assisting in preparation of the annual Economic Report of the President to the Congress.

NATIONAL SECURITY COUNCIL

The fiscal year 1994 budget request for the National Security Council (NSC) is $6,648,000 and 60 full-time equivalent (FTE) positions. This is an increase of $530,000 with no change in authorized positions. This budget request is in accordance with the President's initiatives on federal employees' salaries and reducing administrative costs.

The Council's budget request provides funds for two different entities: the National Security Council, $6,090,000 and the President's Foreign Intelligence Advisory Board (PFIAB), $558,000. With the planned abolition of the President's Intelligence Oversight Board (PIOB), no funds are requested for this component of NSC activities in fiscal year 1994.

The $582,000 increase in personnel compensation is attributable to several factors. In a Presidential directive, President Clinton not only expanded the membership of the NSC, he also expanded the range of issues to be considered by the NSC in developing policy recommendations. In order to fulfill its new responsibility, NSC has chosen to expand the number of professional policy experts compensated by this

appropriation. In keeping with the President's initiatives for the Executive Office of the President staff levels, the NSC has chosen to convert four support staff positions to professional staff positions, rather than to request additional FTE's. The result of this decision is that this budget now bears an increased number of higher paid policy experts than in past years. This adjustment accounts for fifty-four percent of the increase in personnel compensation.

In addition, the new President seeks to create an NSC which reflects the intellectual diversity and foreign policy views of the American people. In order to establish an NSC that has a broad spectrum of ideas and backgrounds, we have sought the most talented foreign policy professionals from around the United States. The increase will fund 60 FTE's: 18 professional policy experts and 42 support staff. The increase will also fund additional overtime for support staff, three reimbursable detailees to the PFIAB, and increases in personnel benefits and workman's compensation claims.

With the elimination of PIOB, NSC will surrender space on the Executive Office of the President Complex to the General Services Administration (GSA). As a result, the NSC will experience a $48,000 decrease in rental payments to GSA for fiscal year 1994. A $7,000 increase in travel will fund advance preparation for the annual Economic Summit and to provide for an anticipated increase in travel during the first year of the new Administration. A reduction of $11,000 is being made within the remaining general operating expenses to bring the administrative base within the guidelines established by the President.

BIOGRAPHICAL SKETCH

PATSY L. THOMASSON

Patsy L. Thomasson currently serves as Special Assistant to the President and Director of the Office of Administration.

In her private sector career, Ms. Thomasson was Executive Vice President and President of the Phoenix Group, Inc., a holding company which had subsidiaries including real estate development, investment banking, and management firms. Before joining the Phoenix Group, Ms. Thomasson was President of Southern Management Association, Inc., which she and her partner formed to own and manage hospitals and nursing homes throughout Arkansas. She has also served as Associate Administrator of Doctors Hospital in Little Rock where she was directly in charge of its major revenue producing departments.

From 1969 to 1971 and 1972 to 1974, Ms. Thomasson served as Staff Assistant to Congressman Wilbur D. Mills. Ms. Thomasson's early service was in his Washington office and her latter was in his District Office where she served as an ombudsman and represented Mr. Mills in Arkansas when congressional duties required his presence in Washington.

Ms. Thomasson has also recently served as the Executive Director of the Democratic Party of Arkansas where she oversaw the implementation of policies set by the Chairman and the Executive Committee of the Democratic Party of Arkansas. During the fall of 1992 she was responsible for the day to day oversight of the Coordinated Campaign in Arkansas. She has also been a member of the Arkansas State Highway and Transportation Commission for ten years and was Chairman of the Select Committee on Commissioners and Board Members of the American Association of State Highway and Transportation Officials.

Ms. Thomasson holds a bachelor's degree from Henderson State University and a master's degree from the University of Missouri.

OMB DIRECTOR'S REPORT

Senator DECONCINI. Let me pursue several issues.

The statement of the managers—I think we alerted you to this subject matter—accompanying the fiscal year 1993 Treasury Appropriation Act directed the Director of the Office of Management and Budget to identify within 15 days of enactment of the act all Federal agencies' support, including staff, provided the White House.

We received the report, but it was not inclusive. There was very limited information concerning the support provided the White House by the Department of Defense in support of Presidential

travel and other supports. When asked why the full information was not provided, OMB stated that it would leave that decision to the next administration.

Are you aware of the statement of managers' language and the outstanding request for full information from the White House? If so, do you intend to provide that information to the committee? If so, when might we see that?

Ms. THOMASSON. Mr. Chairman, I am aware of the report. You all have made me aware of that and I am grateful.

Quite frankly, we have been so busy at the administration with other packages and other aspects of the startup of the new administration that we have not had time to focus on that particular report.

Senator DECONCINI. That's fair enough.

For a number of years, this committee has attempted to find out how much money is spent on the White House and the President's staff people. It is an impossible figure to get a hand on because nobody seems to really know. We know what you spend, but we don't know what Defense spends. We know what Secret Service spends, but we don't know what Commerce, Energy, or anybody else may spend.

When you get settled in, you might be able to do a great service to us by providing some insight to the problem. I am not interested in knowing so that I can criticize it, unless I feel that it is a misuse of public funds. But I think it is very important that we get a total amount of money that is spent on the White House. I am fearful that it is so diverse on purpose so that in past administrations they didn't want the public to know. There may not have been increases by White House administrative office because they were picked up by the Defense Department or the Secretary of the Navy's Office or the CIA or the FBI.

I think it is good public policy that we need to bring that in. With the new administration—to me this is something that is certainly along the lines of what the President campaigned on about modernizing Government and opening it up to the public.

I just leave you with that thought.

SUPPLEMENTAL BUDGET REQUEST

Regarding the supplemental, supplemental budget information you have provided the committee states that these funds are needed to cover the cost of lump sum annual leave payments, replace hard disk drives subpoenaed by the Justice Department, upgrade phone systems, process increased correspondence, and pay for salaries for additional temporary staff to handle the personnel appointment process.

Can you provide us with a detailed explanation of these needs and why your current budget is insufficient? You may want to send that to us later. In your view, what would be the impact if Congress was to deny this supplemental request?

Ms. THOMASSON. Let me begin by saying with regard to the different aspects of the supplemental, that there is $1.375 million in total between the three accounts for transition costs that were associated with employees leaving the previous administration, including lump sum annual leave payments.

Senator DECONCINI. That's off the top just to have the former employees leave?

Ms. THOMASSON. Exactly. Those were all items paid to them under the requirements of law.

DIGENOVA INVESTIGATION

The second amount are the court orders that are related to both the *diGenova* investigation and the *Armstrong* case. There is $597,000 associated with those two particular court orders. The *diGenova* investigation, as you recall, had to do with the investigation by Mr. diGenova into activities surrounding candidate Bill Clinton's passport file and his mother's passport file. The subpoena served on the previous administration on January 15 required the removal of all the hard drives in specific computers within the White House, the Office of Management and Budget, and the Vice President's Office.

What happened physically was that the Information Resources Division of the Office of Administration went out and bought new hard drives, took out the old hard drives that were in those particular computers, and replaced them. That happened on January 18, 19, and 20. It is my understanding that they worked around the clock to get that done so that the new people coming in would be able to sit down at their computer and work when they got there.

That cost just for the hard drives—not including any cost for labor or lost production time—was $225,000 to the Office of Administration for the White House Office.

ARMSTRONG CASE

In addition to the *diGenova* case, we also have the ongoing *Armstrong* case, which is the debate with regard to Presidential records. In the *Armstrong* case, the judge ordered the former administration not to erase anything from their computers. They were told that they must leave all data on the computer and maintain that data on the computer. As you all know, if we left all that data on the computers, their memories would soon be filled to capacity and they would shut down.

We appealed the decision and the court of appeals agreed to let us put all this data on backup tapes which would replicate the data on the mainframe and minicomputers exactly as it was so that we could begin to delete the old data. That cost is in excess of $340,000.

Senator DECONCINI. Have you done that?

Ms. THOMASSON. Yes; we have done all that work. That had to be done immediately or we would have become memory locked. We had to replicate all the information on the mainframe computer, which includes all the OMB budgeting processes, all the OMB monitoring processes, and all the financial management data that we use on a month-to-month basis for all agencies of the Executive Office of the President.

We still continue to have to do backup tapes to comply with the *Armstrong* case orders.

Senator DECONCINI. Have they never heard of records retention policy? That is unbelievable.

Ms. THOMASSON. It is unbelievable and it is a very difficult thing to deal with. It takes a tremendous amount of man-hours both from the technology side and from the legal side. We are working toward some reconciliation of those cases and hopefully all heads can get together and resolve the issue.

Senator DECONCINI. So that is $500,000?

PRESIDENTIAL PERSONNEL OFFICE

Ms. THOMASSON. Almost $600,000.

There is a request for $3.162 million. Part of that is actually for personnel, payment of salaries and payroll, for people to fill the 5,000 jobs the President must appoint within his administration.

Senator DECONCINI. You mean investigation of applicants and processing of their applications, to get them up here for Senate approval, if required, or to get them appointed?

Ms. THOMASSON. Exactly.

In addition, there are some hard costs for computer equipment and software for processing all the résumés that have come into the President for purposes of review for particular jobs. Our request includes money for that and an increase of 50 FTE's over the existing fiscal year 1993 budget.

We are not able to use, as previous administrations have, schedule C detailees from departments because of the language included in the previous appropriations bill that precludes an employee from being detailed to the White House during the first 90 days of his appointment.

CORRESPONDENCE REQUIREMENTS

In addition, we have asked for almost $2 million for White House correspondence, $840,000 of which would be for postage alone. We have received almost 2 million pieces of mail since we have been there on January 20, and that excludes some of the propaganda mail that comes in huge batches.

We have so much mail that the system is totally inadequate to handle what we have coming into the White House.

Senator DECONCINI. How does that compare with previous years or months?

Ms. THOMASSON. We are getting 25 percent more mail right now at the White House than President Bush did during the height of the gulf war. During the first month at the White House, the President got 25 percent more mail than President Reagan did during his first term, and he was a very, very popular President with whom people communicated a lot. It is just an unbelievable volume of mail.

Senator DECONCINI. That is total including propaganda mail?

Ms. THOMASSON. This is just nonpropaganda mail.

Senator DECONCINI. When you say propaganda, you mean the form mail, such as post cards, petitions, and so forth?

Ms. THOMASSON. Yes; the President also wants to answer that mail. He thinks he has a responsibility to answer that mail and to communicate with the American people. So we have $2 million in

the supplemental appropriations request for correspondence processing.

TELECOMMUNICATIONS SYSTEMS

The telephone system upgrade is budgeted at $300,000. The President was very discouraged and very disappointed with the telephone system at the White House when he arrived there. It was unbelievable to him that he would pick up the telephone in the Oval Office and have someone somewhere else in the White House be able to listen to his telephone conversation.

That has been changed. That has been corrected now. However, we still have switchboard operators working with the old type plug-in switchboards that we saw in the 1950's in my hometown. I didn't really believe that, I will have to admit. Then, one Saturday, I worked and worked on the telephone issue all day and went down to the White House switchboard and the operators were all sitting there with these old-fashioned switchboards.

The volume of calls that we have coming into the White House is between 60,000 and 70,000 calls per day. The White House switchboard operators sometimes handle as many as 5,500 to 6,000, for which their systems are inadequate. We have a lot of busy signals.

Right after the inauguration and the new administration came in, I was still living in Arkansas. The rule was that if you did not call by 8:30 in the morning, you did not get through to the White House that day. You made it a point to get to the office by 8 a.m. Arkansas time in order to get your calls through to the White House. It was just impossible to get through otherwise.

Yesterday on our comments line, we had in excess of 3,800 busy signals because there were so many people wanting to call the White House that we could not get enough people through. We continue to have a problem in that area.

In the telecommunications resources area, we have asked for $500,000. That is to enhance the existing television studio to give the President the ability to communicate with different groups all across the United States. If he has been invited to make a speech somewhere in the United States and he doesn't have the time to go there, he can make the speech through teleconferencing at a much lower cost than getting on the airplane and going through that whole process of getting to the east coast, the west coast, Arkansas, or wherever.

Senator DECONCINI. How much was that again?

INFORMATION RESOURCES REQUIREMENTS

Ms. THOMASSON. That was $500,000.

In addition, we have asked for $3.9 million for computer information resources enhancement. Part of that is desk-top equipment. Part of that is infrastructure, a new kind of wiring structure, in order to change the whole process of the way computers operate at the White House. We have a very centralized computer system that has worked fine in the past. We have many, many more people within our organization who use their computers on a regular basis. We have overstressed the computer system in the Executive

Office of the President so that the centralized computer system is no longer as effective as it has been.

We would like to make our computer system more distributive, more in touch with the people who will be using it. We would move to local area networks. They always tease me about my bank analogy, but what we have now is like a downtown bank and all information right now goes to the downtown bank to be processed and then goes back somewhere else.

For example, if I want to send a message by E-mail across the hall to my secretary who is 30 feet away, I put it in the computer and the computer sends it across the street to the New Executive Office Building—the downtown bank—and then sends it back to across the hall, which was only 30 feet to start with. So all these messages are going to the downtown bank. Banks got smart and moved all their branches out into the suburbs so that you could do your banking there.

We are proposing for the infrastructure of the computer system, that we go to local area networks or small work groups within the Executive Office of the President. For example, Mr. Rasmussen already has a local area network in his division. When he has five budget analysts working on fiscal year 1994 and one does a document, he or she can pass it to the next person, review it, and that is a much more effective way of communicating and working on documents.

The local area networks would make us all more effective, more efficient, and less dependent on the downtown computer system.

SOURCES OF APPROPRIATION TRANSFER

Senator DECONCINI. Thank you for that detailed explanation. That is very important.

From your budget, it appears that you intend to take $4 million from the Office of National Drug Control Policy, $3 million from the Internal Revenue Service, $130,000 from the National Space Council, and $50,000 from the National Critical Materials Council.

First of all, I have some difficulty understanding why the White House would use IRS to offset these costs, particularly when it was requesting additional funding of $148 million for IRS information in the economic stimulus program. It seems to be contradicting the President's argument that additional funding was necessary for IRS.

Can you help us reconcile your supplemental request transfer? You have certainly made a good argument for the necessity to have additional funds, in my opinion, but why have you chosen IRS as the main source of those funds?

Ms. THOMASSON. Mr. Chairman, we went to the Office of Management and Budget and told them that we had these needs and asked them to find money within the existing budget so that we did not need to ask for new money.

They came back to us after having identified these specific areas. In the President's budget, there is an error with regard to where the funds came from in the Internal Revenue Service. I believe the object class was 23.3 that was listed in the President's budget itself. They really came from GSA rents that are not anticipated to be spent this year by the Internal Revenue Service. They were not

related to the stimulus in any way, and these were excess rents that were identified subsequent to the stimulus package being proposed.

Senator DECONCINI. That is certainly a decent explanation. Maybe the question needs to be addressed to OMB as to why they didn't use the GSA account for part of the stimulus program. I will reserve that question for them.

As you know, this committee did not fund the full amount for IRS because we just didn't feel the justification was there. Certainly, if there was money hanging around in a GSA account, it should have been a part of the stimulus program. I know that you did not construct that stimulus program.

OFFICE OF NATIONAL DRUG CONTROL POLICY

I am also greatly concerned, Ms. Thomasson, that the White House intends to use approximately $4 million from the Office of National Drug Control Policy to reduce the staff to a level of 25. I don't know how this office can be expected to carry out its enormous responsibilities under the law with respect to the high intensity of drug traffic areas, the Counter Drug Technology Assessment Center, budget certification, and formulation of a national drug strategy with only 25 people.

We don't yet have a drug czar so there is no specific plan to scale back in that office in terms of where the functions would go. I see from the President's budget that the CTAC would receive no funding. The HIDTA Program would be transferred to an account under funds appropriated to the President.

I am not quite sure I understand the rationale of these changes. I have discussed with the White House the problem of no policy in the area of the drug czar. It appears that since there is no policy that this area will take the hit long term.

Can you help us understand what the policy is, or why the administration is picking on the drug czar's office?

Ms. THOMASSON. First let me say, Mr. Chairman, that we certainly aren't picking on the drug czar's office.

It is further my understanding that the office was reorganized so as to better serve the needs of the President, including making the drug czar a Cabinet-level position and actually having the Director of the ONDCP sitting at the Cabinet table on a regular basis. The Director will truly have the ear of the President to better coordinate drug policy.

I am sorry that we don't have a drug czar announced already. In fact, I asked this morning if I could just make the announcement. I was told that I couldn't because the President makes that announcement. [Laughter.]

He hopes to have an announcement to make in the very, very near future and to have a reconciliation of that. I know that as soon as the nominee is confirmed as the National Drug Control Policy Director, he or she will want to come and visit with you and other members of the committee with regard to the policy and what is going to happen.

We think that what the President has asked to do is going to place the drug czar in a better position to be able to effect change and to make sure that drug policy is coordinated among other

agencies of the Government. We really want it to be revitalized and we really want it to become a policy and planning office. It is about the same size proposed as the National Economic Council, the Domestic Policy Council, and the Office of Environmental Policy, three of the most important policy councils in the Government.

Senator DECONCINI. I think that the fact that there is no drug czar it should be considered a bit premature to go in and reduce their budget by $4 million and down to 25 staff people—without a drug czar to determine whether or not those reductions are a good idea. Someone else is making that determination for a drug czar who hasn't been appointed yet?

Ms. THOMASSON. There was a working group within the White House that worked on these issues. In comparing the policy office, the working group felt that the policy could be made with about the same size staff that we have in the National Economic Council and the Domestic Policy Council. They are about equivalent in size.

Senator DECONCINI. How many career staffers still remain on the payroll of the drug czar?

Ms. THOMASSON. There are 52 career staff and 13 schedule A employees still at ONDCP, as well as 2 schedule C employees.

Senator DECONCINI. Have you stated any reduction in force for that office?

Ms. THOMASSON. Yes; we are working on our reduction in force in that office.

Senator DECONCINI. Do you know what the cost will be?

Ms. THOMASSON. I do not know that number off the top of my head, Mr. Chairman, but I would be glad to provide that at a later time.

[The information follows:]

OFFICE OF NATIONAL DRUG CONTROL POLICY COST ESTIMATE FOR REDUCTION IN FORCE

As of May 17, 1993, there are a total of 61 full-time employees at ONDCP. Of these 61 employees are career employees, 12 are Schedule A employees, and two are Schedule C employees. At this staffing level, the potential financial liability for a reduction in force totals $1,486,379. This includes $995,284 for severance pay, and $491,095 for lump sum leave payments.

DRUG CZAR APPOINTMENT

Senator DECONCINI. You certainly have raised the interest of the administration's appointment of a drug czar. Can you tell us when that is likely to happen? Are we talking about this month, or next month, or imminent, or what?

Ms. THOMASSON. I think the President would have liked for it to have happened yesterday, the day before, or last week. It is something that is on the front burner. It is not just simmering, it is bubbling over. I think it will be done as quickly as possible, sir.

Senator DECONCINI. I am going to yield to my ranking member, but I have to tell you that this Senator is very concerned about the operation of the White House as it relates to the drug czar, Ms. Thomasson. You can take that back to whomever you want to down there. As far as I am concerned, when you wipe out the funding and reduce it to 25 people, you might as well just wipe out the whole office. I don't see how, with 25 people, you could possibly

maintain all the obligations that are already on the statute as requirements for the drug czar and hopefully change them.

I have a bill up here—and I think Senator Biden does, too—which makes it a much stronger position, as we wanted in the first place. The Reagan administration objected to giving it real authority other than a strategy and approving budgets. A compromise was worked out, and in my opinion that compromise has not worked well on the war on drugs.

Maybe that is forthcoming with a new drug czar and maybe that has been considered and is under review. I certainly can't find out what is going on about it. I suppose something will be dumped before us with an expectation to fund whatever they want, but I would sure like to know. I am tired of spending the money for a program that hasn't worked.

Cutting it may not be all bad, but if there isn't an alternative of what we're going to give this drug czar and expect him to do, I would just as soon abolish the office.

Senator Bond.

Senator BOND. Thank you, Mr. Chairman.

Once again, I had some trouble with the shifting of funds question. Frankly, I agree that we need to provide the funds, and I would rather be up front about it and provide the funds directly to the White House than to have the brawling going on.

Have you already utilized some of these funds? You got new phone equipment, you said?

TELEPHONE EQUIPMENT

Ms. THOMASSON. No, sir; we have not purchased any phone equipment at all. We have a procurement task force working to write specifications, but at this time no new telephone systems have been bought. What we did do in the President's office was to take out one type of phone and move a phone from another area into his office so that he would have a more secure line. It was just a matter of shifting phones around.

STAFF REDUCTIONS

Senator BOND. To go back to the basic question, as I indicated earlier, we had heard about the 25-percent reduction in staff and at the same time we are seeing the spending going up. After looking at the budget request, I think the American people might be happier if you kept the same number of people and reduced the spending.

But to go to that question on staffing, do you have figures on how many people are currently on board working in the Executive Office? How many warm bodies are there in the White House?

Ms. THOMASSON. As of February 9, when the President made his announcement and when Mr. McLarty made his announcements with regard to the cutbacks—let me digress.

In direct response to your question, I can't tell you today how many people are there, Senator Bond. What will be there on October 1, 1993, when fiscal year 1994 begins is 1,044 people at the Executive Office of President, which will be made up of 901 full-time equivalent employees plus 143 other Government employees. That

compares with November 7 when there were a total of 1,394 employees actually onboard, which was made up of 1,086 actual onboard people and 308 other Government employees.

In terms of the big picture, we are reducing from 1,394 to 1,044, a 25-percent reduction in actual people working at the White House by the first day of October in 1993.

Senator BOND. And you exclude from that calculation U.S. Trade Representative and OMB?

Ms. THOMASSON. That's correct.

Senator BOND. And you are also cutting the detailees by more than one-half?

Ms. THOMASSON. Yes, sir.

May I share with you this chart?

Senator BOND. Certainly.

At the current time, do you know how many people you have?

There is actual onboard personnel on this chart. Is that actual onboard personnel as of what date?

Ms. THOMASSON. In this first column, that is as of November 7, 1992.

In the total estimated on board, that would be as of October 1, 1993, for the fiscal year 1994 budget request.

Senator BOND. So that is fiscal year 1994, as of October 1, 1993?

Ms. THOMASSON. That is correct.

Senator BOND. Do you have a breakout of how political and career employees numbers stand up?

Ms. THOMASSON. No, Senator Bond; we have not made that calculation as of this date. We will be glad to calculate that and let you know that.

[The information follows:]

CAREER VERSUS NONCAREER EMPLOYMENT

Exclusive of the Office of Management and Budget, the Office of Federal Procurement Policy, and the United States Trade Representative, as of May 8, 1993, there were 416 career employees and 762 noncareer employees, for a total of 1,178 employees in the Executive Office of the President.

The distribution between career and noncareer for fiscal year 1994 is still being developed.

Senator BOND. What about part-time employees? Do you have part-time employees onboard?

Ms. THOMASSON. If we have part-time employees, they are counted in that 1,044 bodies we will have.

Senator BOND. So if they work half-time, they are counted as half a body?

Ms. THOMASSON. Exactly.

Senator BOND. How many consultants? Do you have a handle on the number of paid consultants?

Ms. THOMASSON. I don't know the answer to that, but I will be glad to get back with you on that.

[The information follows:]

NUMBER OF PAID CONSULTANTS

As of May 8, 1993, there were 20 Consultants or Experts on board in the Executive Office of the President. This number excludes those in the Office of Management and Budget, the Office of Federal Procurement Policy, and the U.S. Trade Representative.

VOLUNTEERS

Senator BOND. You mentioned something about volunteers. Do you have any idea how many volunteers you have?

Ms. THOMASSON. We have a number of volunteers particularly those working in the correspondence division, Senator Bond. We are processing almost 2 million pieces of mail and we have a lot of volunteers that have come in to help us process that mail. Simply opening it and stapling the mail is a big process. We do have volunteers that are helping us with that.

It varies from day to day on the number of volunteers we have coming in. Sometimes we might have as many as 100 and sometimes maybe 10 or 12 volunteers come in.

Senator BOND. What about all these working groups that you have? You said you have the procurement cluster. Are those made up of volunteers?

Ms. THOMASSON. The working group that is working on the telephone procurement is made up of people within the Office of Administration and within the White House. We have participants in the working group from the U.S. Secret Service, because of the nature of the security issues at the White House. We have a representative of WHCA working with us on the procurement to make sure that what we buy will be compatible with what they already have. We have people who are computer specialists from our information technology division working on the task force. We have people from Treasury that are helping us because they have been through a big telephone procurement for the Internal Revenue Service. We also have a representative from the General Services Administration that has an outstanding telephone contract that we might be able to use.

We have tried to draw upon these different groups.

Senator BOND. So these are all volunteers from other Government agencies?

Ms. THOMASSON. Yes.

Senator BOND. Are there any volunteers who are not in the Federal Government working on that?

Ms. THOMASSON. No, sir.

Senator BOND. And you don't have a handle on how many of those are working there right now?

Ms. THOMASSON. Totally, I do not know. The telephone working group's size varies depending on whatever the particular issue might be that week. If it is a security issue, we might have three or four from the Secret Service. Next week, once those issues are resolved, they might not all be at the meeting. They continue to do their regular work at their agencies. They will just be within our area for a short period two or three times a week.

Senator DECONCINI. When you talk about volunteers, are you really talking about temporary detailees that come over for a short period of time and work on issues, but they are still being paid by the agency from which they come?

Ms. THOMASSON. Absolutely.

Senator DECONCINI. So they are not coming in on off-hours or anything like that?

Ms. THOMASSON. No; we are talking about two different subjects. The volunteers that are working in the correspondence section that are opening mail.

Senator DECONCINI. Where are they from?

Ms. THOMASSON. They are people who have an interest in Government or an interest in the Clinton administration.

Senator DECONCINI. So friends of the administration?

Ms. THOMASSON. Right. They are generally not Government employees.

For example, Congressman Hoyer told me that the Democratic women in his district had been in and volunteered for a day at the White House and had opened mail. That is separate from the group who are Government employees assisting the White House.

Senator DECONCINI. You counted them both as volunteers.

Ms. THOMASSON. In a way, I do.

Senator BOND. But there is a distinction between the true volunteers.

Senator DECONCINI. It would be nice if you could give us some sort of count, roughly, just how many nonpaid volunteers versus those that come over for a special detail.

Ms. THOMASSON. OK.

[The information follows:]

NUMBERS OF VOLUNTEERS AND DETAILEES

The number of volunteers on board on May 7 was 195. On any given day, there are usually 300 nonpaid volunteers providing services to the White House Office. There are usually between 150 and 170 assisting in the Correspondence Unit and approximately 130 serving in other offices. These services are clerical in nature and range from answering telephones to drafting responses to correspondence.

In contrast, the number of detailees for the pay period ending May 8 was 210.

Senator BOND. What other organizations are providing volunteers? Congressman Hoyer's Democratic women—are there others coming in from specific places? How do you get all the bodies?

Ms. THOMASSON. For example, any time a couple from Arkansas comes and one spouse comes that doesn't have to work and the other spouse has to work, you will find them working in the correspondence section opening mail. It is very interesting. It's a treat for them.

With regard to specific groups in the area that are coming in, I don't know the answer to that, but I would be glad to furnish that for you.

[The information follows:]

GROUPS PROVIDING VOLUNTEER SERVICES

Volunteer services have been provided by a wide variety of individuals and organizations. We have received the services of area junior high schools whose students assist in opening the mail on Saturdays. Other groups who have provided support on a regular basis include: U.S. Soldiers and Airmen's Home, George Washington and American Universities, IBM Retirees Association, Women's Suburban Democratic Club, and the National Jewish Democratic Club.

Senator DECONCINI. You would take Republican volunteers as well, wouldn't you?

Ms. THOMASSON. Mr. Chairman, we would take anybody as long as they get through the security check. [Laughter.]

DRUG CZAR

Senator BOND. I, too, was concerned about the drug czar. This office has taken a major hit, down to 25 people, yet we are to believe that the drug czar is going to be elevated to a Cabinet level office. Certainly, the USTR can't get by with 25 people. How is this new high-powered drug czar going to get by with 25 people?

What are you going to do with the people who are being sent away from the current office? Who is going to do the work when this new potent drug czar is in place?

Ms. THOMASSON. Going back for a second, I think the reorganization plan and the policy role that the President has in mind for the drug czar is certainly going to be on a very elevated position, different from what it has been in the past.

With regard to specifics in how the drug office is going to function in the future, I am not able to discuss that with you today, Senator Bond. I am not a great drug policy expert. I wish I were because I am sure I would have a new job.

I am not in a position to be able to do that today. I know that the new drug czar, as soon as he or she is appointed, will come and sit down with you all and discuss with you how this office will function in the future.

Senator BOND. Mr. Chairman, how much do you want to bet that 2 years from now we are not looking at 25 people in the office of the drug czar?

Senator DECONCINI. If the Senator would yield, it is an interesting thing and it is unfair to ask Ms. Thomasson because she doesn't know. But in the budget they have put in $86 million for the HIDTA as appropriated money to the President. That doesn't come under your particular area, which is a plus from the standpoint that we never got any money from any other administrations for the HIDTA, but of course, there is no indication as to how that is going to be handled, whether the drug czar is going to do it.

Then on the down side, on the forfeiture fund, they have put in $28 million instead of the normal $73 million last year.

Hopefully, we will get a drug czar and get some answers to these questions. We will certainly get the drug czar up here to explain what the drug policy is.

I don't say that critically of you because it is really not your grade and rank. But it leaves us in a quandary here about just where we are going. I agree with Senator Bond.

COUNCIL ON ENVIRONMENTAL QUALITY

Senator BOND. I have heard some of the same questions raised about the Council on Environmental Quality. Is it going to become part of the Office of Policy Development? Are duties going to be transferred to the EPA? What is going to happen there?

Ms. THOMASSON. Let me digress, if I might, for one second with regard to the HIDTA grants and the special forfeiture fund.

It is my understanding that the budget document does say that the drug czar and the drug office will be responsible for administrating those funds and that they will still have the responsibility to do that.

With regard to the Council on Environmental Quality, part of the functions that CEQ has been doing in the past have been proposed to be moved to EPA. The remaining responsibilities in the environmental policy area would, in the future, be developed by the Office of Environmental Policy, which would be one of the three pods in the Office of Policy Development.

Senator BOND. But will the duties still be at the White House in OPD, or will they be transferred back to EPA?

Ms. THOMASSON. There are some reporting requirements that are going to be transferred to EPA. With regard to policy on the environment, that would be done within the Office on Environmental Policy at the White House as part of the Office of Policy Development. Katie McGinty is the Director of the Office on Environmental Policy.

POLICY OFFICE STAFFING

Senator BOND. One of the things that we noticed early on—when Mr. McLarty talked about the new White House staff he said that they were all going to be paid less than the previous staff. But I gather you said that at the NSC they are going to increase salaries. They are going to have higher paid people than previous administrations. Is that true?

Ms. THOMASSON. It is a different function almost across the board in the policy offices. In the past, it is my understanding that the past administrations have had about two policy people for every support staff. The Clinton administration will have three policy people for every support staff. We have increased overall the number of policy people.

Between the Clinton administration and the Bush administration, all of us have come in at 6 to 10 percent lower on an individual basis for assistants to the President, deputy assistants to the President, and special assistants to the President. So we have more policy types, thus our aggregate salaries go up, but we have lower individual salaries than in the past.

Senator BOND. That is why I think we're dealing with policy oranges and staff apples. That is why you have more higher paid people. That is why your costs are going up, even though you say that you're reducing the full-time employees.

Ms. THOMASSON. That's correct.

Senator BOND. That's why I said that given the problems with the deficit, folks might have liked to see more people and less dollars.

Ms. THOMASSON. The other problem, Senator Bond, is that with all the new people who are coming on, they are all going into the new program for retirement purposes as opposed to the old program, and it costs more overall for all these new people than the old program does. That has also driven our employee costs up.

INCREASES IN MAIL AND TELEPHONE CALLS

Senator BOND. We will follow that.

I was just concerned. You talked about being inundated with mail and phone calls. I know what that can be like when you take over a new office. A question occurred to me. Did you have any

thought of doing a transition period? I understand that you let the whole correspondence unit go before you had any chance to retrain them. Are you going to let go the telephone operators and all that when you still have that volume of work coming in?

Ms. THOMASSON. No, sir.

There were some correspondence staff that were eliminated when we first came into the White House. It is very important for the President's mail to be answered by people who understand the President and the President's philosophy. We feel that was a very, very important thing to do.

Even if those people had stayed, they would have had to be retrained and regrouped in order to answer this President's mail, which is a different style and different method than what we have had in the past.

We think that the people we have there now will better serve the President and will better be able to respond to the messages that he receives and get more mail out on a regular basis. This group of people who work on the White House correspondence work very, very long hours and are very dedicated and devoted to the President. This President—and I think it takes that kind of dedication and devotion in order to get the massive amounts of mail out that we have to do on a daily basis.

The White House switchboard operators do a very fine job for the White House. I don't want to do away with the White House switchboard operators in any formal fashion. I would like to give them new electronic equipment to work with rather than the old pegboard.

CONCLUDING REMARKS

Senator BOND. I will have a number of questions that need detailed responses. It probably would be more productive if you all had an opportunity to look at them and get us the numbers. We do have the request set forth in my letter from February 18. I hope you can get around to that.

As I indicated, our colleagues on the House side asked a number of questions that I gather you were not able to answer. I trust you will be supplying the answers to those. If you would let us have copies of those answers as well, we might be able to get a better handle on what the proposals are and how you intend to implement these changes.

Ms. THOMASSON. We are working very hard on the questions for the record for the House side. When we have those prepared, we will be glad to share those with you.

[The information follows:]

REQUEST FOR COPY OF HOUSE QUESTIONS AND ANSWERS

Copies of the answers have been provided to the Senator under separate cover.

Senator BOND. Thank you, Mr. Chairman.

Senator DECONCINI. Thank you, Senator Bond.

I would urge you to answer the ranking member's letter.

Ms. THOMASSON. I made a note to find that letter, Mr. Chairman.

Senator BOND. It just so happens that I have an extra one.

Ms. THOMASSON. Thank you, Senator Bond.

SUBMITTED QUESTIONS

Senator DECONCINI. Thank you, Ms. Thomasson and Mr. Rasmussen. We appreciate the explanations and will continue to work with you. We will submit additional questions to you to be answered for the record.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR DeCONCINI

WHITE HOUSE SUPPLEMENTAL

Question. The President's fiscal year 1994 budget includes a supplemental funding request totalling $7,411,000 for the White House Office; $107,000 for the Vice President's Office; and $4,342,000 for the Office of Administration for a grand supplemental total of $11,860,000. The supplemental budget information you have provided the Committee states that these funds are needed to cover the costs of lump-sum annual leave payments, replace hard disk drives subpoenaed by the Justice Department, upgrade phone systems, process increased correspondence, and pay for salaries for additional temporary staff to handle the personnel appointment process. Can you please provide us with detailed explanation of these needs and why your current budget is insufficient to cover these costs?

Answer. Three agencies of the Executive Office of the President, the White House Office, Special Assistance to the President, and the Office of Administration have identified the need for a supplemental appropriation for fiscal year 1993: unbudgeted expenses related to the Presidential transition; compliance with court action in the matter of Armstrong v. Executive Office of the President, a civil action to which several Executive Office of the President agencies are defendant parties; compliance with a subpoena in a Justice Department investigation; staffing needs associated with providing temporary, additional support to the Presidential Personnel Office; and automated data processing and telecommunications resources used by agencies providing policy advice and support to the President in his role as Chief Executive.

In fiscal year 1989, the White House Office and the Office of Administration requested and received funding to meet the unique needs of a Presidential transition. This funding was used to pay terminal leave (or lump sum leave) payments for departing employees, reconfiguring telecommunications and automated data processing resources, and overtime personnel compensation for employees processing personnel actions associated with the transition. This unprecedented request was made for two reasons: to establish an historical record of transition planning within the context of support to the ongoing operations of the Executive Office of the President and to avoid presenting the incoming President with an operating budget eroded by the necessary expenditures related to the departure of the sitting President. These funds were appropriated separate and apart from the funds received by the General Services Administration for support to the incoming and outgoing Presidents. As agreed to during the appropriations cycle, a report outlining the expenditure of these funds

was filed with the Treasury, Postal Service Appropriations Subcommittees of the House and Senate in July 1989.

The Presidential transition of 1992-1993 followed the pattern established in fiscal year 1989 with one notable exception: for these three accounts, no funds for activities related to a Presidential transition were included in the fiscal year 1993 appropriation. To date, the White House Office, the Office of the Vice President, and the Office of Administration have together incurred over $1 million in unbudgeted expenses nearly identical in nature to those incurred in fiscal year 1989. Many of these expenditures are required by law or regulation (e.g., terminal leave) and have severely eroded already limited discretionary resources. This has severely limited the ability of the Administration to function with the necessary resources.

On January 6, 1993, in the matter of Armstrong v. the Executive Office of the President, Judge Charles R. Richey, U.S. District Court for the District of Columbia ordered the National Archives and Records Administration to preserve "without erasure all electronic federal records generated at [the Office of Administration, the White House Office, and the National Security Council]." On January 11, 1993, Judge Richey further "enjoined the defendant agencies from removing, deleting, or altering information on their electronic communications systems...." On January 15, 1993, the U.S. Court of Appeals stayed in part Judge Richey's January 11, 1993 order. Concurrently, in the matter of a Justice Department investigation, on January 15, 1993, the Executive Office of the President was served with a subpoena for data stored on the hard drives in personal computers used by certain Executive Office of the President personnel.

In response to the first two court orders in the Armstrong case, all data on all systems running on the Executive Office of the President Data Center mainframe configuration and minicomputer clusters (this included the system used to prepare the President's budget) had to be stored without deletion or modification. The modification by the Court of Appeals, while reducing the burden of the daily storage requirement, still requires the Executive Office of the President Data Center to "faithfully replicate" the data stored on its systems. Equipment and supplies needed to comply with the actions of the court represent an additional, unanticipated expense to the Office of Administration of over $340,000.

The subpoena in the Justice Department investigation required the removal and replacement of nearly three hundred personal computer hard drives in the White House Office and the Office of the Vice President (Special

Assistance to the President) between January 18 and 20, 1993. Total cost for the equipment alone is estimated at $257,000. This expense, too, was unanticipated and unbudgeted. The Executive Office of the President had no choice but to comply with the action of the court in both matters. However the expenses associated with compliance represented a significant investment of funds already strained by the needs of the transition, further limiting the ability of the Administration to provide the resources needed to meet its objectives.

At the beginning of each new President's term in office, it is his, or her, responsibility to fill more than 5,000 positions throughout the executive branch. This year is no exception. However, the Administration has made a conscious decision to complete this task with full-time, temporary personnel compensated and supported by the White House Office operating budget, rather than by requesting detailees from other government agencies. It is the objective of the Administration to complete the appointments process in a timely and effective manner, however, filling and compensating fifty full-time equivalent positions against the current ceiling of 408 will consume all available personnel resources, thus making it nearly impossible for the White House Office to employ the policy experts and advisors that directly support the activities of the President. Therefore, we are requesting a temporary increase in our FTE ceiling, as well as the funding necessary to support these positions. Otherwise, the expenses related to these additional, temporary staff members will overwhelm a budget already burdened by transition related personnel requirements and compliance with court action in two separate legal matters.

The volume of mail received at the White House since President Clinton took office is greater than that received by any President in recent history. Mail continues to arrive in increasing quantities and we anticipate it will total over ten million pieces during the first year of this Presidency. The Administration's goal is to answer in excess of six million pieces annually. The existing resources and system of correspondence processing was not designed for, and cannot handle, this volume. In the immediate future additional funds are needed to respond in a timely fashion to the correspondence received to date. This requires additional funds for postage, paper goods, temporary support personnel, and database processing. These funds are currently unavailable due to the strain already placed on a budget seriously depleted by the transition and other matters.

In the month since taking office, the President and his senior advisors have identified several key technological resources needed to effectively and efficiently meet their policy objectives. Without them,

the ability of the President to achieve his goals will be severely impaired. In addition, the Administration has determined that the telecommunications system currently in use in the White House Office is not only out-of-date, but also presents a serious threat to the confidentiality of Presidential communications. It is, therefore, of the utmost urgency that this system be replaced and these technology needs be attended to in a efficient and timely manner.

Question. In your view, what would be the impact if Congress was to deny this supplemental request?

Answer. If Congress were to deny the supplemental request, the White House Office would be required to implement immediate reductions in personnel and services in order to complete the fiscal year within the limits of our original appropriation. These reductions would be draconian in their magnitude and could strip the President of the resources he needs to meet his commitments to his constituencies and severely impair the ability of the President and his senior advisors to meet the mandate of the American people.

Question. Have you thought about using the $1 million in the "Unanticipated Needs" account to cover a portion of these costs?

Answer. Upon identifying the need for additional funds in fiscal year 1993, the White House Office requested the assistance of the Office of Management and Budget in identifying sources of funding to meet that need. In order to recommend the use of funds from the Unanticipated Needs account, OMB must certify that no other funds are available. OMB identified funds in other appropriations that were available for transfer.

Question. Did you look elsewhere to offset the White House costs, i.e., unobligated balances, or lower priority projects?

Answer. The events and needs outlined above, in particular, the expenses associated with the transition and complying with the action of the court, have placed significant demands on these three accounts and, in practical terms, have exceeded all discretionary resources. Currently, all the resources of the White House Office are dedicated to providing an acceptable level of service to the President and his staff. At this time, there are no projects or priorities that may be deferred in order to meet the immediate needs of the White House Office. Without additional funds, the Administration will face its first year without the resources it needs to fulfill its obligations to the American people.

WHITE HOUSE OFFICE

Question. In fiscal year 1994, you are requesting an increase of $3.529 million for the White House Office or 10 percent above the level funded in fiscal year 1993. You state that this increase is necessary to fund correspondence processing initiatives totalling $2.085 million; expanded telephone lines totalling $264,000; and improvements in telecommunications and information resources to permit the President to have better access to the public totalling $625,000. The remaining increases are to cover inflationary adjustments and GSA rent. I want to discuss these program increases for a few moments. What information do you have to lead you to believe that the current volume of mail being sent to President Clinton will continue to increase as the year goes on?

Answer. The President is committed to engaging the American public in the process of governing. This has been one of the hallmarks of his career. As Governor of Arkansas, President Clinton received more mail than any previous governor and was receiving more mail at the end of his gubernatorial tenure than at the beginning. This phenomenon has followed President Clinton to the White House. Between January 20 and May 5, 1993, the President alone received 2.7 million pieces of mail. We believe this trend will continue during his Presidency.

Current estimates within the White House Office vary, but the most conservative estimates project just under 7 million pieces of answerable mail during fiscal year 1994. This is just under three times what the previous administration received in 1992 and 2.4 times the 1990-92 average for the Bush Administration.

Question. The correspondence initiative, as I understand it, consists of 3 parts: an additional $1.6 million for postage; $360,000 for stationery; and $125,000 for training of correspondence staff. What is the current correspondence budget and how much is currently available for postage?

Answer. The White House Office budget is not organized programmatically. Postage is included in the object classification, "Rent, communications, and utilities," currently $100,000 is designated for postage. Postage costs have averaged $850,000 annually.

Question. Your telecommunications initiative as I understand it requires an additional $475,000 to permit the President to reach more of the public through videotaping and teleconferencing. Can you explain to the Subcommittee the specific components included in the initiative and tell us why the current capabilities are inadequate to permit President Clinton to reach the public?

Answer. Similar to the demands placed on the telephone and correspondence systems, the President has experienced a tremendous increase in demands for his time. These demands exceed available time and travel resources. Communication tools such as teleconferencing and videotaping have been successfully used in the past to frequently reach broad ranges of the public while still containing costs. Funds requested in fiscal year 1994 will be used to acquire equipment designed for interactive video communication, and to pay for satellite connectivity.

Question. On your information resources request, your budget documents state that an additional $150,000 is required to keep the President and his staff better informed through wire service hardware and software. Can you please explain this initiative and tell us what changes you are seeking from the current information services provided to the White House Office?

Answer. As the Executive Office of the President moves toward October 1 and its new structure, it will be necessary for those responsible for policy development and integration to become more self-sufficient in their abilities to search for and retrieve the information that will enable them to provide timely and accurate advice to the President. This initiative will provide the President and his staff with direct access to online information services like Legi-Slate® and Lexis/Nexis®. We will also be able to add expanded indexing, and search and retrieval capabilities to existing information services. These services will be available to users at the personal computer level, and can be indexed and tailored to meet the needs of individual user groups.

Question. Your budget states that you are reducing the full-time equivalent staffing by 7 from the fiscal year 1993 level. The Congress funded a level of 401 FTEs for the White House Office in fiscal year 1993. And, the FTE level you are requesting in fiscal year 1994 totals 401. Where are you getting the 7 FTE reduction from when it appears to me that you are requesting funding for the same level of FTEs as that funded in fiscal year 1993?

Answer. In Senate Report 102-353, the Committee did provide for 401 FTE, the same number as in fiscal year 1992. However, the committee also approved "$280,000 of the requested increase of $555,000 to convert 13 detailed positions to permanent positions." In an effort to clarify this issue, we consulted members of the subcommittee staff. It was our understanding that the intent was to allow 7 additional positions in fiscal year 1993.

Question. At a time when all other Federal agencies are being subjected to the 3 percent administrative cut and a reduction of 2 and one-half percent in staff, how

does the White House justify a 10 percent increase in its budget?

Answer. During the transition period, members of President-elect Clinton's staff met with former Chiefs of Staff to solicit their recommendations for organizing the White House Office. All of them advised us to structure the White House in a way that best served the needs of the President and provided him with the resources to meet his commitments to the American people.

Upon taking office on January 20, 1993, the Clinton Administration undertook a careful and thorough review of all White House Office operations. The purpose of this initial review was to determine the nature of the current organizational structure and to identify areas where changes would be needed in order to establish a structure that would support the activities and priorities of the new President. The results of this review were used to develop the fiscal year 1994 budget request.

From the first days of the campaign, President Clinton has been committed to reducing government; the White House Office is not exempt. The fiscal year 1994 budget request complies with the President's initiatives on federal employees' salaries and reducing administrative costs. Senior Staff of the White House routinely receive salaries that are 6-10 percent less than their counterparts in the previous Administration. In building the current services level, we reduced $200,000 from the budget in accordance with the President's directive and guidelines from the Office of Management and Budget.

However, several areas have been identified where in order to provide an appropriate level of service to the new Administration, a number of adjustments need to be made. In general, these areas are related to providing an appropriate level of service to President Clinton in his commitment to engage the American public and to include them in the process of governing. The resources needed to fulfill this commitment are reflected in our requests for correspondence and telecommunications.

EXECUTIVE ORDER ON PERSONNEL REDUCTIONS

Question. President Clinton's Executive Order mandated personnel reductions for each Executive Branch agency by 1 percent in fiscal year 1993 and 1 and 1/2 percent in fiscal year 1994, required that "at least 10 percent of the reductions shall come from the Senior Executive Service, GS-15 or GS-14 levels or equivalent." Can you identify the specific personnel reductions which you propose to take for the EOP accounts under consideration today to demonstrate that you are in full compliance with this Executive Order?

Answer. Executive Order 12839, (February 10, 1993) directed that each executive department or agency with over 100 employees "shall eliminate" not less that 4 percent of its civilian personnel positions over the next three fiscal years. OMB Bulletin 93-08 established the guidelines under which this reduction would be achieved. Of the nine accounts for which the Director of the Office of Administration testifies, only the White House Office and the Office of Administration are required to comply with E.O. 12839.[1]

Each executive department or agency was directed to achieve 25 percent of its total reduction by the end of fiscal year 1993, with 10 percent of that reduction to be taken from the Senior Executive Service and individuals compensated at the GS-14/15 level. For the White House Office this meant a total reduction of 4 FTE by the end of fiscal year 1993 (i.e. an FY 1993 ceiling of 404); for the Office of Administration this meant a total reduction of 2 FTE by the end of fiscal year 1993 (i.e.,. an FY 1993 ceiling of 232). Instead both agencies have established FTE levels for the beginning of fiscal year 1994 that exceed the requirements of both the OMB guidance and the E.O.

With respect to the reduction in Senior Executive Service and GS 14/15 employees, 10 percent of the FY 1993 reduction in either the White House Office or the Office of Administration would have resulted in a reduction of less than 1 FTE.

DETAILEES

Question. Your testimony states that President Clinton is reducing Executive Office of the President staff by 25 percent from the levels funded by President Bush. I believe the numbers you are using are 1394 for Bush and 1044 for Clinton or a reduction of 350. Can you tell me how many of the 350 positions to be reduced are for detailees, how many are full-time equivalent positions, and how many are temporary or part-time positions?

Answer. Of the 350 positions to be reduced by October 1, 1993, 165 are Other Government Employees, which includes detailees; 185 are full-time equivalent positions.

Question. If you did not include detailees in these figures, what would be the total net reduction in staffing for EOP agencies as proposed by President Clinton?

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[1]The Office of Management and Budget and the United States Trade Representative are the only other Executive Office of the President agencies affected by E.O. 12839.

Answer. See answer to previous question.

Question. For the record, can you supply the Subcommittee with a listing of detailees by EOP agency for fiscal year 1993 and these proposed for fiscal year 1994, both reimbursable and non-reimbursable?

Answer. A listing of detailees at the Executive Office of the President as of May 8, 1993, follows:

Executive Office of the President

Treasury, Postal Service & General Government Appropriations

Detailees as of May 8, 1993

Agency/Account	Reimbursable Detailees	Non-Reimbursable Detailees
Compensation of the President	0	0
White House Office	1	32
Office of Administration	0	0
Special Assist. to the President	0	2
Official Residence of the VP	0	0
Unanticipated Needs	0	0
Office of Policy Development	1	1
Council of Economic Advisers	4	3
National Security Council	0	86
SUBTOTAL	**6**	**124**
Council on Environ. Quality	0	0
Executive Residence at the WH	0	0
National Space Council	3	0
Nat'l Critical Materials Council	0	0
Office of Nat'l Drug Control Policy	0	15
Office of Sci. & Tech. Policy	8	2
SUBTOTAL, Cumulative	**17**	**141**
Office of Management and Budget	0	15
Office of Fed. Procurement Policy	0	0
U.S. Trade Representative	2	35
TOTAL, Cumulative	**19**	**191**

Since detailees are generally requested to fulfill an immediate and short-term need for expertise in a given policy area, it is not possible, at this time, to estimate the number of detailees that may actually be

requested by a given agency. However, we have established, for some agencies, a limit on the number of other government employees they may have during the next fiscal year.

Executive Office of the President

Treasury, Postal Service & General Government Appropriations

Agency/Account	FY 1994 Other Government Employees
White House Office	29
Office of Administration	0
Special Assist. to the President	11
Official Residence of the VP	0
Office of Policy Development	10
Council of Economic Advisers	0
National Security Council	87
SUBTOTAL	**137**
Council on Environ. Quality	0
Executive Residence at the WH	0
National Space Council	0
Nat'l Critical Materials Council	0
Office of Nat'l Drug Control Policy	0
Office of Sci. & Tech. Policy	6
SUBTOTAL, Cumulative	**143**
Office of Management and Budget	10
Office of Fed. Procurement Policy	6
U.S. Trade Representative	35
TOTAL, Cumulative	**194**

Note: Unanticipated Needs and Compensation of the President are not included in this table.

Question. I see your fiscal year 1994 budget proposes a reduction of $150,000 for special personnel services payments from $200,000 in fiscal year 1993 to $50,000 in fiscal 1994. Can you tell us what accounts for this reduction?

Answer. The Clinton Administration is determined to reduce the number of people working in the EOP. While detailees will always be necessary, the $50,000 for special personnel services included in our fiscal year 1994 request should be sufficient to provide the President with the flexibility necessary to meet the mission of his office.

ADMINISTRATIVE REDUCTIONS

Question. The $10 million savings that you state President Clinton is mandating for EOP agencies as I see it is being derived from significant changes in the Office of National Drug Control Policy and the Council on Environmental Quality. Wouldn't you say this is true?

Answer. It is essential to look at the whole picture. When one reviews all of the accounts of the entire Executive Office of the President, there are a number of accounts that experience significant change, including but not limited to the Office of National Drug Control Policy, the Council on Environmental Quality, the Office of Science and Technology Policy, and the National Security Council. Ten million dollars in savings are achieved throughout. Some accounts go up, others go down, but overall there are real and substantial staff cuts as well as real and substantial budgetary savings.

OFFICE OF ADMINISTRATION

Question. For the Office of Administration for fiscal year 1994 you are proposing an increase of $412,000 but a reduction of 43 FTEs. Now, I understand that 13 of the 43 FTEs will come from the elimination of 13 reimbursable detailee positions. If this occurs, will OA have any detailees, either reimbursable or non-reimbursable in fiscal year 1994? If so, how many and from which agencies. Where do you plan to take the remaining 30 FTEs in OA and what will be the impact?

Answer. There are no reimbursable detailee positions in the Office of Administration. The reduction of 43 FTEs will be taken from the new fiscal year 1993 authorized level of 232. Thirteen of the positions to be eliminated currently provide information system design support to other Executive Office of the President agencies (e.g., the Office of Management and Budget). These are Office of Administration employees whose personnel costs are reimbursed by the agencies to whom such support is provided. The remaining 30 FTEs will be reduced from within all seven OA divisions and the Director's Office.

Question. For fiscal year 1994 you are proposing several new program initiatives totalling $505,000 and a computer disk storage replacement project costing $480,000. Can you please prioritize these projects and tell us what would be the impact if the initiatives were not funded?

Answer. Requested enhancements for the Office of Administration include: Essential Data Center Acquisitions ($275,000); Information Systems Productivity Enhancements ($120,000); the Full-Service Publications Center ($45,000); and the expanded training program ($65,000).

We have included $840,000 in our current services level to replace disk storage devices for the mainframe configuration. Approximately one-third of the disk storage currently in use has exceeded its useful life and needs to be replaced. The proposed storage capacity will enhance the ability of the mainframe configuration to support the systems and applications currently running on it, in particular the system used to prepare and monitor the President's budget.

OFFICE OF THE VICE PRESIDENT
(SPECIAL ASSISTANCE TO THE PRESIDENT)

Question. For the Special Assistance to the President, or the Vice President's Office, for fiscal year 1994 you are proposing an increase of $120,000 and an FTE reduction of 5. Included in this increase is $100,000 for the acquisition of automated data processing equipment and the establishment of a local area network. It seems to me that we funded ADP equipment initiatives for the Vice President's Office in fiscal years 1991 and 1992 and that funds were reprogrammed from these types of initiatives repeatedly during the Bush Administration for travel. Can you tell me what, if any, ADP enhancements have been made at the Vice President's Office during the past 4 years?

Answer. Fiscal year 1990 equipment expenditures totalled $31,000. Of this $9,700 (31%) was spent for automated data processing equipment, including personal computers, peripherals, and software. The balance was expended in furniture and other non-ADP equipment.

Enhancement funding totalling $175,000 was requested in fiscal years 1991 and 1992. The amount requested in fiscal year 1991, $28,000, was reprogrammed into the travel object class, to accommodate the Vice President's increased travel requirements, and into the compensation and benefits object class, to support enacted pay increases and other increased personnel costs. In fiscal year 1992 an upgrade program was begun with approximately $107,000 of the requested $147,000 expended to purchase personal computers and peripherals. Of the remaining $40,000, $16,000 was expended for other equipment purchases (e.g., facsimile machines, copiers) and $24,000 was reprogrammed into personnel.

With funds available in 1993, the Office of the Vice President has expended $30,000 to replace hard drives that were subpoenaed by the Court in the diGenova case.

In addition to this OVP has purchased 10 personal computers and word processing software.

Plans for the requested funding in fiscal year 1994 include hardware and software upgrades, the installation of an OVP-wide local area network, and purchase of electronic mail software.

Question. I see that the travel budget for the Vice President is being proposed to stay the same as that of Vice President Quayle, This travel budget accounts for approximately 11 percent of the Vice President's Office budget. This budget has increased from $160,000 in fiscal year 1990 to $275,000 in fiscal year 1993 or by 42 percent. Can you tell us why this level of funding for travel is necessary?

Answer. The Vice President travels at the request of the President and in order to fulfill the duties and responsibilities assigned him by the President. Due to the transition, fiscal year 1993 travel patterns do not provide a representative base on which to plan future budgets. Official travel for the previous Vice President was limited during the first quarter of this fiscal year; Vice President Gore has been in office only a few months and as such has not established an historical record for travel. In developing the fiscal year 1994 request, we believed it was prudent to request no change in the travel budget for the Special Assistance to the President account until a more representative record of travel for Vice President Gore had been established.

Question. How much has been expended for travel for the Vice President's Office thus far this fiscal year?

Answer. As of April 30, 1993, the Office of the Vice President has incurred obligations of $120,808 in the travel object class.

Question. Do you anticipate obligating the entire $275,000 in fiscal year 1993, and if so, for what specific trips?

Answer. We anticipate obligating the entire $275,000 for Vice Presidential travel in fiscal year 1993. The travel of the Vice President is determined largely by events and policy determinations, and as such is extremely dynamic and often subject to change. For this reason, in addition to the security concerns a disclosure of this nature would raise, it is not possible to list specific trips the Vice President may take during the remainder of this fiscal year.

UNANTICIPATED NEEDS

Question. I see that none of the $1 million for unanticipated needs was obligated during fiscal year

1992. Have any of these funds been obligated in fiscal year 1993 and if so, for what purposes?

Answer. No funds were expended from this appropriation in fiscal year 1992. To date, there are no requests for the use of funds from this account in fiscal year 1993.

COMPENSATION OF THE PRESIDENT

Question. The salary of the President is set by law at $200,000. He does not receive cost-of-living increases and he is not eligible for the pay increases provided to most senior executives under the last Quad Commission recommendations. Could it be possible in a year or two that the President could be making less that Cabinet members and other senior executives?

Answer. Currently, the rate of pay for Level I of the Senior Executive Service is $148,400, 74 percent of the level of compensation for the President. Assuming an average increase in compensation of 3.2 percent, it would take approximately 10 years for the rate of pay for Level I to reach that of the President.

The salary of the Vice President is set by the Commission on Executive, Legislative, and Judicial Salaries. In accordance with a decision by the last Quadrennial Commission the provisions of 3 U.S.C. 104, the Vice President receives an annual increase in his rate of pay similar to that accorded the Executive Schedule. Using the same average increase as above, it is possible that the rate of pay for the Vice President could exceed that of the President by fiscal year 1997. It should be noted that the Quadrennial Commission made no such provision for increasing the rate of pay for the President.

Question. Does the White House have any plans to request a legislative change to prevent other Executive Branch officials from receiving a salary higher than that of the President?

Answer. In accordance with the provisions of 2 U.S.C 351 *et. seq.*, rates of pay for members of the Senior Executive Service are reviewed by the Commission on Executive, Legislative, and Judicial Salaries and recommendations for adjustments are presented to the President. The President shall include the recommendations of the Commission "which he deems advisable" in the next budget to be transmitted to Congress after the Commission submits its report.

Question. In fiscal year 1992, only $7,000 of the $50,000 appropriated for official expenses was actually obligated. I see that for fiscal year 1993 you are projecting to obligate the entire $50,000. Can you tell

us why you believe the President will use the entire $50,000 in expenses in fiscal year 1993 when the former President only expended $7,000 in the previous fiscal year?

Answer. The amount of the expense account was fixed by statute in 1949. In accordance with the provisions of this same statute, any unused portion of the expense account reverts to the Treasury at the end of each fiscal year.

Due to the transition, fiscal year 1993 expenditure patterns for this account do not provide a representative base on which to plan future budgets. Expenditures for the previous President were limited during the first quarter of this fiscal year; President Clinton has been in office only a few months and as such has not established an historical record for using this account.

Question. How much of the $50,000 in official expenses was obligated prior to President Clinton taking office?

Answer. Prior to January 20, 1993, approximately $2,000 had been obligated from the President's expense account.

Question. How much has President Clinton obligated since he has taken office?

Answer. Since taking office, as of April 30, 1993 President Clinton has obligated approximately $2,000 from the expense account.

NATIONAL SECURITY COUNCIL

Question. You are requesting an increase of $530,000 in fiscal year 1994 for the National Security Council to a new level of $6,648,000. Your justification identifies increases of $312,000 for increases for professional staff and within grade increases; $144,000 for increased costs of personnel benefits; $84,000 for special personnel service payments; $7,000 for foreign travel; $36,000 for additional overtime for support staff; and $6,000 for other personnel compensation. Your justification states that these increases are necessary to support the conversion of support staff to professionals to increase the number of professional staff positions. What specific level of funding can be attributed to the upgrading of these positions?

Answer. $312,000 is the amount attributed to the conversion of four support staff positions to professional policy positions. This amount also includes funds for within-grade-increases for support staff. An additional $84,000 is requested for increases in special

personnel services for reimbursable detailees to the President's Foreign Intelligence Advisory Board.

Question. With the elimination of the President's Intelligence Oversight Board, I thought we would see a reduction in the NSC budget. Can you tell me how much money was budgeted in fiscal year 1993 for this office? And, can you explain why there will be no savings associated with this organizational change?

Answer. In fiscal year 1993, a total of $73,500 was budgeted for this office, with 53 percent of that designated for payment of office rent. Reductions achieved by the elimination of this board were offset by requested increases for special personnel services payments for detailees to the President's Foreign Intelligence Advisory Board.

Question. Your fiscal year 1994 budget justification shows an FTE level in fiscal year 1993 of 60 and the same proposed for fiscal year 1994?

Answer. That is correct.

Question. The Congress funded the requested level of 59 FTEs in fiscal year 1993. Therefore, it appears that FTEs have increased by 1. Can you give us the justification for this increase and identify the authority you used to expand the staff to 60 FTEs?

Answer. In Senate Report 102-353, the Committee did provide for 59 FTE, the same number as in fiscal year 1992. However, House Report 102-618 allowed "the 65 positions requested for fiscal year 1993, an increase of 5 over...fiscal year 1992." The Conference Report was mute on this issue. The National Security Council sought clarification from the Office of Management and Budget after the appropriations bill was signed into law. The Office of Management and Budget allowed a fiscal year 1993 FTE ceiling of 60 for the National Security Council.

Question. How many detailees did NSC have on board when President Clinton took office?

Answer. On January 20, 1993, when President Clinton took office there were 57 detailees assigned directly to the National Security Council. An additional 37 detailees were assigned to the White House Situation Support Staff. In addition, two reimbursable detailees were assigned to the President's Foreign Intelligence Advisory Board.

Question. How many do you currently have on board?

Answer. There are currently 65 detailees assigned directly to the National Security Council. An additional

36 are assigned to the White House Situation Support Staff. An additional, two detailees are assigned to the President's Foreign Intelligence Advisory Board on a reimbursable basis.

Question. How many detailees will you have on board in fiscal year 1994?

Answer. In fiscal year 1994 the National Security Council will have 87 detailees distributed between the Council and the White House Situation Support Staff. An additional 3 reimbursable detailees will support the President's Foreign Intelligence Advisory Board.

Question. Can you please give us a listing of detailees by agency for NSC and indicate whether they are non-reimbursable or reimbursable?

Answer. All detailees to the NSC and the White House Situation Support Staff are non-reimbursable. Those detailed to the President's Foreign Intelligence Advisory Board are considered reimbursable. The current distribution of detailees follows:

Detailees Assigned to the National Security Council

Dept. of Defense	16
Dept. of State	23
Defense Logistics Agency	1
Dept. of Energy	1
Dept. of Commerce	1
FBI	1
EPA	1
CIA	7
Drug Enforce. Agency	1
Nat'l Security Agency	1
Dept. of Treasury	1
Nat'l Archives	3

Active Duty Military Personnel

United States Navy	3
United States Army	4
United States Air Force	1

Details to the White House Situation Support Staff

Defense Intel. Agency	3
Def. Info. Sys. Agency	4
CIA	4
FBI	1
Dept. of State	3
National Security Agency	3

Active Duty Military Personnel

United States Navy	5
United States Army	6
United States Air Force	5
U. S. Marine Corps	1
U.S. Coast Guard	1

Details to the President's Foreign Intelligence Advisory Board

National Security Agency	1
CIA	1

QUESTIONS SUBMITTED BY SENATOR BOND

Question. The President indicated his desire to reduce the staff at the White House by 25%. As I indicated in my opening remarks, I am having trouble reconciling the request for extra funding, and reduction of staff.

Could you tell me how many people are currently on board in the Executive Office?

Answer. Exclusive of the Office of Management and Budget, the Office of Federal Procurement Policy, and the United States Trade Representative, as of May 8, 1993, there were 1,178 employees on board in the Executive Office of the President.

Question. Also how the political to career employee numbers would break out?

Answer. Exclusive of the Office of Management and Budget, the Office of Federal Procurement Policy, and the United States Trade Representative, as of May 8, 1993, there were 631 Presidential Appointments, Non-Career Senior Executive Service, Schedule C, and Administratively Determined employees on board in the Executive Office of the President.

Question. How many of those are Full-Time?

Answer. Exclusive of the Office of Management and Budget, the Office of Federal Procurement Policy, and the United States Trade Representative, as of May 8, 1993, there were 1,094 full-time employees on board in the Executive Office of the President.

Question. How many are Part-Time?

Answer. Exclusive of the Office of Management and Budget, the Office of Federal Procurement Policy, and the United States Trade Representative, as of May 8, 1993, there were 19 part-time employees and 65 intermittent employees on board in the Executive Office of the President. Intermittent employees work only when called upon to do so by their supervisors; they do not have a regularly scheduled tour of duty.

Question. How many are consultants?

Answer. Exclusive of the Office of Management and Budget, the Office of Federal Procurement Policy, and the United States Trade Representative, as of May 8, 1993, there were 20 Consultants or Experts on board in the Executive Office of the President.

Question. How many are volunteers?

Answer. On May 7, 1993, there were 195 volunteers on the Executive Office of the President Complex. On any given day, there can be as many as 300 non-paid volunteers providing services to the White House Office. There are usually between 150 and 170 assisting in the Correspondence Unit and approximately 130 serving in other offices. These services are clerical in nature and range from answering telephones to drafting responses to correspondence.

Question. Please break these down by office.

Answer. On the succeeding page we have provided a chart that breaks down these categories by agency. Due to the ephemeral nature of volunteers in the Executive Office of the President, we are not able to provide information on volunteers in this format.

Question. I would also like a break out in the same manner for the Correspondence Unit.

Answer. The White House Office Correspondence Unit employs 87 full-time employees, 3 part-time employees, and 15 intermittent employees.

Executive Office of the President

Treasury, Postal Service, and General Government Appropriations

Staffing Levels as of May 8, 1993

Agency/Accoun	Total	F/Time	P/Time	Inter.	Cons.	PA,SC	AD
WHO	527	500	4	23	0	0	527
OA	239	231	8	0	0	0	8
OVP	21	21	0	0	0	0	21
VPR	1	1	0	0	0	0	0
OPD	39	38	1	0	0	0	39
CEA	34	31	3	0	0	6	16
NSC	62	57	1	4	5	0	0
SUBTOTAL	923	879	17	27	5	6	611
CEQ	17	16	1	0	0	1	6
Exec. Res.	95	95	0	0	0	0	0
NSpC	2	2	0	0	0	0	0
NCMC	2	2	0	0	0	0	0
ONDCP	109	75	1	33	10	1	0
OSTP	30	25	0	5	6	6	0
SUBTOTAL,	1,178	1,094	19	6	20	14	617
OMB	528	512	16	0	0	25	0
OFPP	34	30	1	3	1	1	1
USTR	172	144	26	2	3	9	15
TOTAL,	1,912	1,780	62	70	24	49	633

Notes on Chart

NOTE 1: The total for all Executive Office of the President agencies, exclusive of the Office of Management and Budget, the Office of Federal Procurement Policy, and the United States Trade Representative (boxed in the chart above) represents the total for full-time, part-time, and intermittent employees. The remaining categories are considered sub-sets of the total.

NOTE 2: Consultants may be employed on a full-time, part-time, or intermittent basis and are, therefore included in the totals for full-time, part-time, and intermittent employees.

NOTE 3: Presidential Appointments, Non-Career Senior Executive Service, Schedule C, and Administratively Determined positions may be filled by full-time, part-time or intermittent employees and are, therefore, included in the totals for full-time, part-time, and intermittent employees.

Question. There has been considerable confusion with regard to the staffing levels during the Bush administration and who those people were. On February 9 Mr. McClarty announced that the Executive Office would be reduced from 1,394 to 1,044, a 25% cut. That announcement was the basis for my February 18 letter. In that letter I asked several questions, which I would like to ask again today. How does this translate to FTE?

Answer. Of the 350 positions to be reduced by October 1, 1993, 185 are full-time equivalent positions.

Question. How many are detailees?

Answer. Of the 350 positions to be reduced by October 1, 1993, 165 are Other Government Employees.

Question. Are you counting detailees in the reduction?

Answer. Other Government Employees, which includes detailees, are included in the reduction.

Question. Could you address each of these issues?

Answer. See answers to previous questions.

Question. The budget calls for a reduction of 43 FTE. How many political slots are in OA? Will they all be filled? How will you reach the reduction in the career slots? -- RIF? -- Transfer? -- Attrition?

Answer. There are no political positions in the Office of Administration. Ten positions within the Office of Administration are administratively determined under the provisions of the White House Personnel Authorization Act, Pub. L. 95-570; these individuals serve at the pleasure of the Director of the Office of Administration. In the past, these positions have been filled by senior managers and division directors; generally these individuals have extensive experience their areas of expertise. As of May 8, 1993, 8 of these positions were filled.

The reduction of 43 FTEs will be taken from the new fiscal year 1993 authorized level of 232. 13 of the positions to be eliminated currently provide information system design support to other Executive Office of the President agencies on a reimbursable basis. The remaining 30 FTEs will be reduced from within all seven OA divisions and the Director's Office. Every effort is being made to achieve this reduction through attrition and early retirement. In addition, the resources of the Presidential Personnel Office have been made available for outplacement assistance.

Question. Your supplemental requests an additional 50 FTE. That equates to at least 100 people or more. I am a bit concerned, Mr. Chairman because I would assume that there is money in the personnel accounts that has yet to be spent, especially for the political positions which have yet to be filled. We authorized money for 401 FTE for this fiscal year. What will these 50 FTE be doing?

Answer. These additional personnel are assigned to the Presidential Personnel Office (PPO). The function of this office is to search, screen, and identify candidates for the more than 5,000 presidentially appointed positions in the federal government.

Question. What will they be paid?

Answer. The President is authorized to appoint and fix the pay of any member of the White House Staff without regard to any other provision of law related to employees of the federal government. The individuals employed by PPO represent a broad spectrum of experience and expertise and have been engaged to perform tasks ranging from the simple to the complex. These individuals are being compensated at rates commensurate with their responsibilities and experience.

Question. Where will they go on October 1?

Answer. As candidates for Presidentially appointed positions are identified, confirmed as necessary, or appointed, the need for the additional staff in PPO will decline and the vast majority of these individuals will

leave the employ of the White House Office. As of October 1, 1993, a core of approximately 35 individuals will remain in PPO to maintain an appropriate level of support to the President in this area. These 35 individuals are included in the requested fiscal year FTE level of 401; we intend to reach this target by October 1, 1993.

Question. The supplemental as well as the FY 1994 request call for large increases in communications and equipment. Could you outline for us what you will be purchasing?

Answer.

Fiscal Year 1993 Supplemental Request

Funds requested in the fiscal year 1993 supplemental appropriation will be used, primarily by the Office of Administration to establish the network infrastructure needed to move the Executive Office of the President toward distributed processing. These resources include, but are not limited to network infrastructure; file server support; communications software; and information services. Affected Executive Office of the President agencies are those directly involved in providing policy advice and support to the President in his role as Chief Executive.

The White House Office equipment request in the fiscal year 1993 supplemental includes funds for FAX machines, and FAX modems in personal computers used by the Presidential Personnel Office staff, and for the computer system, first acquired during the transition, used for tracking and sorting resumes. We have requested funds for additional telecommunications costs (telephone and FAX lines), and information management resources. Funds have also been requested to offset the costs of compliance with a Justice Department subpoena, to replace the central telephone switching device and to add new telephone services (e.g., voice mail) and desk top equipment.

Fiscal Year 1994 Request

Funds requested for equipment in the fiscal year 1994 budget include the following:

In the White House Office, these funds will be used to upgrade personal computer memory capacity, to replace some older personal computers, if necessary, to establish additional local area networks for White House Office groups and to add peripherals to personal computer networks (e.g., printers and modems). Funds requested for telecommunications capabilities will be used to pay for satellite links and videoconferencing equipment.

In the Office of Administration, funds are requested for additional disk storage and monitoring software for the mainframe configuration, additional equipment needed to expand the Compact Disc-Read Only Memory capabilities of the Executive Office of the President libraries, and labeling and graphics equipment for expansion of the Publications Service Center.

In the Special Assistance to the President account, funds are requested for personal computers, as well as the equipment and software necessary to complete a local area network for this office. This effort is part of an ongoing project to upgrade and modernize the information resources of this agency.

Question. What will you be replacing?

Answer. Generally, none of the automated data processing equipment is targeted for replacement. Instead, we are planning to reconfigure existing resources, making adjustments and expanding capabilities where necessary. We do however, hope to replace the central telephone switching device as well as desk top telephone equipment.

Question. What capabilities will be added?

Answer. The new Administration's needs for information management are based on using faster, less cumbersome technology. This necessitates the development of a decentralized system for information processing. Decentralized processing is based on linking personal computers into small networks that are then connected to one another, rather than connecting each computer to a central processor. These smaller networks function as an infrastructure, much like an system of roads and highways. When technology advances or new applications are developed that require additional processing capacity only a few elements of the infrastructure, namely the personal computers or processing units, need be replaced. Building an information infrastructure that does not have to be replaced in its entirety each time technology changes is more cost effective in the future and provides increased capabilities over time. The funds requested in the fiscal year 1993 supplemental request will provide the resources necessary to establish this infrastructure.

Question. Have funds for this equipment already been obligated?

Answer. The Executive Office of the President has identified equipment needs and is currently performing requirements analyses and assessments as appropriate to determine greater specificity. In addition, where necessary, and feasible, necessary documentation for

procurements is under development. However, as funds for this equipment have not been appropriated, neither have funds been obligated.

Question. Press reports, as well as your statement indicate that the White House has been inundated with mail and phone calls. So much so that you have been unable to handle the volume. You are asking for funding to train people on the new equipment. Was any thought given to retraining the correspondence unit before those people were let go? Is the same thing going to happen with the telephone operators?

Answer. During the transition period, members of President-elect Clinton's staff met with former Chiefs of Staff to solicit their recommendations for organizing the White House Office. All of them advised us to staff and structure the White House in a way that best served the needs of the President and provided him with the resources to meet his commitments to the American people.

During the first weeks of the Administration, the decision was made that the individuals responsible for responding to the President's mail should be attuned to the precise nature of the Clinton presidency and capable of preparing responses to the American people that reflected not only the President's point of view, but also his personal style. For this reason, and in accordance with the provisions of 3 U.S.C. 103, which allows the President to employ individuals without regard to other provision of law affecting federal employees, the decision was made to bring new employees into the Correspondence Unit.

The training planned for fiscal year 1994 will build upon the existing skill base of the Correspondence staff and will provide them with additional skills and abilities. These expanded capabilities will enable them to use the existing correspondence system at maximum capacity.

At this time, we do not anticipate that members of the switchboard staff will be released.

Question. You mentioned that a number of volunteers regularly work at the White House. Please detail for the subcommittee how many volunteers are at the White House, what tasks are they currently involved in, what tasks have they previously been assigned, and specifically, have any volunteers done any work for the security office?

Answer. There is a long and honorable history of volunteer activity at the White House with the Clinton Administration proudly continuing the tradition. The volunteer pool is a highly qualified and diverse group composed of government and private sector retirees as

well as students, teachers and professionals. Many are people who have volunteered for past administrations.

As many as 250-300 volunteers serve the complex each day. We encourage volunteers to work where they believe they can make the best use of their skills and interests. A large number of them help in the Correspondence Unit where they assist in sorting and analyzing mail, stapling and addressing envelopes, answering the telephones and entering data. Throughout the White House complex they perform similar activities in addition to doing research and analysis for short-term projects.

The Security Office uses a few volunteers to process papers and handle routine telephone calls. All security checks are performed by the paid staff. There are no volunteers handling classified or confidential documents.

Question. Since the start of the Administration, have any volunteers subsequently gone on the federal payroll at a rate of pay equal or greater than GS-15? If so, please list their name, title, salary, and the time during which they served as a volunteer.

Answer. To our knowledge, which is limited to the Executive Office of the President, no one who served as a classic volunteer -- a classic volunteer being one who comes through the volunteer office and serves where ever assigned -- has gone on to a position paid at or above GS-15. In the first weeks, a few people did do some work before having a specific job identified or did serve in particular positions before formally going onto the payroll -- the most obvious case of this latter type being Mr. Robert Rubin -- but these were isolated cases and involved individuals asked to perform particular functions until their payroll situations could be settled.

Question. As the White House continues its efforts to modernize the phone, computer and communications systems, have any contractors, vendors or individuals donated, leased or in any other way provided equipment, manpower or training to the White House staff? In addition, has any equipment, manpower, or training been donated, leased or in any other way provided to volunteers or consultants who are working for, or assigned to, the White House.

Answer. First, regarding leases, the Executive Office of the President and the White House lease a variety of equipment through the regular procurement process -- including vehicles, automated data processing equipment, and telephones. However, since January 20, our records show the only new automated data processing/telecommunications lease to be that covering the Resumix resume system. Other equipment affected by a lease signed since January 20 includes a lease

extension with Xerox Corporation extending coverage of their on-site equipment from May through the end of the fiscal year.

Regarding donations, there have been no explicit donations, though there have been a few isolated cases of loaned automated data processing equipment -- equipment that has now been returned. To our knowledge, no other equipment, manpower, or training has been donated or otherwise provided by private contractors, vendors, or individuals to the White House staff or to volunteers or consultants of the White House.

Question. Over the past several years Congress has appropriated funds to modernize and upgrade the communications and computer systems of the Executive Office of the President.

Please provide for the subcommittee a detailed accounting of how these funds were spent, and how the funds requested in the FY 93 supplemental and the FY 94 budget for into these on-going modernization efforts.

Answer. In recent years, funds appropriated to the Office of Administration have been used to acquire a new mainframe computer for the Executive Office of the President Data Center; disk storage devices for the minicomputer cluster; additional processors for the minicomputer cluster; printers for the mainframe configuration; a new financial information system; and software used to expand and develop the Office of Administration System for Information Services, the information management system used by the Office of Administration and other Executive Office of the President agencies.

Funds appropriated to the White House Office have been used to replace outdated personal computers and office printers, to purchase and install the existing correspondence system, and to install an optical disk scanner system in the Records Management Office.

Question. Are any of the new funds requested to be used to replace or alter this recently acquired equipment or software?

Answer. The automated data processing environment within the Executive Office of the President is a mixture of personal computers, minicomputers, and a mainframe computer. The personal computer is predominant on desktops within the Executive.Office of the President and the desktop environment will play an increasingly important role in day-to-day operations in Executive Office of the President agencies. Currently under consideration is a shift from centralized processing to the current industry approach, distributed processing. Distributed processing addresses work group independence

and is capable of reacting to the changing needs of the area and departmental (group) users. This approach can be best described as a personal computer-based local area network providing advanced electronic-mail and file sharing capabilities. Implementation of this approach will provide a decentralized distributed environment for the White House Offices and certain Executive Office of the President agencies. This environment is adaptive to autonomous business units (work groups) at the personal computer level and empowers the user with the tools and functionality to accomplish required tasks more productively.

The funds requested by the Executive Office of the President will be used to reconfigure and enhance existing equipment in order to build the infrastructure to support distributed processing. Generally, this will consist of optical fiber cable and connections in the Old Executive Office Building, file servers to support local area networks, communications software for local area networks, and possibly, new software applications for specific local area networks.

Question. Are any of the new funds requested to be used to retrain career employees -- particularly those who may have just been trained on the new systems installed in the past few years?

Answer. New, or enhanced equipment seldom necessitates a large-scale training effort for the user. It does however, require additional training for the individuals responsible for maintaining that equipment and integrating new system software within the existing architecture. Equipment maintenance is provided by the Office of Administration and as such, it is this agency's responsibility to ensure that maintenance personnel are prepared to respond appropriately to equipment malfunctions. In addition, the Office of Administration will ensure that individuals responsible for system integration are prepared to respond to software or integration problems. These training needs are identified annually by the Information Resources Management Division and funds for this kind of technical expertise are included in the fiscal year 1994 request for the Office of Administration.

The introduction of a new application or software release almost always carries with it the need to orient end-users in the use of that application. Currently, the Office of Administration, Information Resources Management Division provides training to all Executive Office of the President employees on new applications and new software releases. This requires training for the training staff in the use of new software and new releases of standard processing software. This ensures that individuals with the appropriate expertise are available to assist users as needed. Funds for this kind

of expertise are also included in the fiscal year 1994 request for the Office of Administration.

Generally, there will be no change to the systems installed on the mainframe computer configuration (e.g., the Budget Preparation System and the new financial management system) and users will continue to use these systems as they have in the past. However, as we move toward the distributed processing model, users will access these systems through their local area network, this may change the access methodology for mainframe systems. There may be some need for limited training of end-users on the access methodology. In addition, as new applications are installed on individual local area networks, there will be a need for end-user training. As described above, this is the responsibility of the Office of Administration.

QUESTIONS SUBMITTED BY SENATOR D'AMATO

Question. Your request for the White House Office is $38.914 million -- an increase of $3.529 million, or almost 10%. One of the reasons stated in your summary of account requests for this increase rests with the volume of mail that the President has received as well as the number of phone calls and faxes. Of that $3.5 million increase, $2.085 million is slated for correspondence needs. Are there other avenues that the Administration could pursue in order to make sure that the needs and concerns of those who contact the White House are met, but at a lower cost?

Answer. President Clinton is committed to actively engaging the American public in the process of governing. He believes that the outpouring of letters, phone calls, and FAX messages is indicative of their enthusiasm for participating in this process. In order to support the President in this area, we believe the White House has a responsibility to acknowledge that we have received people's letters and that their views are being considered. Our current plans call for a combination of traditional correspondence and telecommunications resources. We believe this is a well-balanced approach for maintaining the level of responsiveness the President requires.

Question. You state that you expect to achieve a 25% reduction in White House staffing levels -- from 1,394 to 1,044 -- by October 1, 1993. Do you have a blueprint as to which 350 specific positions and in which offices these reductions will be made?

Answer. In determining reductions for each Executive Office of the President agency, reductions were identified for both full-time equivalent positions and

other government employees. A general, agency-by-agency listing showing planned reductions for each agency is included on the next page. Individual agencies are responsible for identifying specific positions to be eliminated.

Question. If not, is there a general listing?

Answer. On the succeeding page we have provided a chart that identifies the reductions planned for each Executive Office of the President agency.

Executive Office of the President

Treasury, Postal Service & General Government Appropriations

Agency/Account	Actual On Board Personnel (11/7/92)	Other Government Employees	Total Actual On Board	FY 1994 Requested FTE (10/1/93)	Other Government Employees	Total Estimated On Board
White House Office	413	57	470	401	29	430
Office of Administration	236	0	236	189	0	189
Special Assist. to the President	24	24	48	21	11	32
Official Residence of the VP	1	0	1	1	0	1
Office of Policy Development	40	9	49	40	10	50
Council of Economic Advisers	36	6	42	35	0	35
National Security Council	55	124	179	60	87	147
SUBTOTAL	805	220	1,025	747	137	884
Council on Environ. Quality	30	1	31	0	0	0
Executive Residence	95	0	95	89	0	89
National Space Council	5	39	44	0	0	0
Nat'l Critical Materials Council	2	0	2	0	0	0
Office of Nat'l Drug Control Policy	115	31	146	25	0	25
Office of Sci. & Tech. Policy	34	17	51	40	6	46
SUBTOTAL, Cumulative	1,086	308	1,394	901	143	1,044
Office of Management and Budget	539	10	549	526	10	536
Office of Fed. Procurement Policy	31	6	37	30	6	36
U.S. Trade Representative	179	35	214	156	35	191
TOTAL, Cumulative	1,835	359	2,194	1,613	194	1,807

Question. When these reductions are implemented, how will the responsibilities of those positions be met?

Answer. The responsibilities of the positions to be eliminated will be met using existing resources. It will be necessary for each member of the Executive Office of the President staff to assume additional responsibilities within his or her agency, division, or branch. To that end, most Executive Office of the President agencies are reorganizing, internally, in order to deploy their resources in order to meet their goals withing their new personnel ceiling. For example, the Office of Administration will be reorganized in a manner that maximizes resources while providing a full range of services to our clients within the EOP.

We anticipate that the initiatives included in the fiscal year 1994 request will provide those individuals with additional tools to use in fulfilling their new responsibilities. These initiatives includes readily available communications technologies like voice mail and telephone call forwarding.

Question. Where will the monetary savings of these reductions be represented?

Answer. The savings achieved by the reorganization and downsizing of the Executive Office of the President are represented in a reduction in the total funds requested for fiscal year 1994 for all Executive Office of the President agencies.

Executive Office of the President

Treasury, Postal Service & General Government Appropriations

($ in thousands)

Agency/Account	FY 1993 Appropriated	FY 1994 Request
Compensation of the President	$250	$250
White House Office	$35,385	$38,914
Office of Administration	$24,438	$24,850
Special Assist. to the President	$3,150	$3,270
Official Residence of the VP	$324	$324
Unanticipated Needs	$1,000	$1,000
Office of Policy Development	$3,772	$5,122
Council of Economic Advisers	$3,428	$3,420
National Security Council	$6,118	$6,648
SUBTOTAL	**$77,865**	**$83,798**

Council on Environ. Quality	$2,560	$0
Executive Residence at the WH	$7,598	$7,925
National Space Council	$1,591	$0
Nat'l Critical Materials Council	$235	$0
Office of Nat'l Drug Control Policy	$17,348	$5,800
Office of Sci. & Tech. Policy	$6,225	$5,170
SUBTOTAL, Cumulative	$113,422	$102,693
Office of Management and Budget	$52,981	$53,481
Office of Fed. Procurement Policy	$3,058	$3,058
U.S. Trade Representative	$19,992	$20,616
TOTAL, Cumulative	$189,453	$179,848

SUBCOMMITTEE RECESS

Senator DECONCINI. The subcommittee will stand in recess until April 29 at 10 a.m. when the Office of Personnel Management will be before us.

[Whereupon, at 12:05 p.m., Thursday, April 22, the subcommittee was recessed, to reconvene at 10 a.m., Thursday, April 29.]

TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1994

THURSDAY, APRIL 29, 1993

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:10 a.m., in room SD–116, Dirksen Senate Office Building, Hon. Dennis DeConcini (chairman) presiding.

Present: Senator DeConcini.

OFFICE OF PERSONNEL MANAGEMENT

STATEMENT OF JAMES B. KING, DIRECTOR

ACCOMPANIED BY:

PATRICIA W. LATTIMORE, ACTING DEPUTY DIRECTOR
JEAN M. BARBER, ACTING ASSOCIATE DIRECTOR, PERSONNEL SYSTEMS AND OVERSIGHT GROUP
CURTIS J. SMITH, ASSOCIATE DIRECTOR, RETIREMENT AND INSURANCE GROUP
LEONARD R. KLEIN, ASSOCIATE DIRECTOR, CAREER ENTRY GROUP

OPENING REMARKS

Senator DECONCINI. The Subcommittee on Treasury, Postal Service, and General Government will come to order. Today the subcommittee will take testimony from the Office of Personnel Management. We are delighted to have as the lead witness for OPM the new director, Mr. James King.

Welcome, Mr. King, we look forward to working with you. I anticipate you will be up here many times. We will certainly want to work on a number of issues.

The fiscal year 1994 budget request for the Office of Personnel Management totals $24.678 billion and 5,947 FTE's. This amount reflects a reduction of $536 million and 92 positions from the fiscal year 1993 enacted levels. The biggest increase in your budget, as I read it, can be attributed to the mandatory activities under the retirement and disability funds, which are projected to increase by $165.8 million in fiscal year 1994.

Director King, your agency has enormous responsibilities with respect to the management of the Government's health, disability, and retirement trust funds. I have every confidence that you are up to the responsibility to make sure that the Federal employee

programs are properly managed and I look forward to working with you.

Of concern to me, however, is the administration's budget proposals with respect to Federal employees. Federal employees always seem to be easy targets when budget deficits spiral. I don't mind Federal employees taking their hit as long as it is equitable with respect to all other groups. I intend to ask you some questions along that line.

I understand that ranking member, Mr. Bond, was already here. I apologize for my tardiness. Any statement he has or any questions he has will certainly be included in the record.

Mr. King, you may introduce your associates and proceed with a summary of your statement.

STATEMENT OF JAMES B. KING

Mr. KING. Mr. Chairman, my comments have been submitted to the committee. We have passed those out to the members of the public here so that everyone has an opportunity to see them. To facilitate the committee's time, we might move directly to questions. Would that be useful?

Senator DECONCINI. That will be fine, Mr. King.

Mr. KING. Thank you, Mr. Chairman.

[The statement follows:]

STATEMENT OF JAMES B. KING

Mr. Chairman and members of the subcommittee: Thank you for inviting me to appear today to discuss the President's request for appropriations for the Office of Personnel Management for fiscal year 1994. As I review OPM's budget request with you, I would also like to discuss President Clinton's legislative proposals affecting the personnel programs for which OPM is responsible.

The Office of Personnel Management's 1994 budget request includes five separate appropriations totaling $10.6 billion in current budget authority and two limitations on transfers from OPM's trust funds totaling $95 million.

OPM's budget request supports the President's Govermmentwide initiatives to reduce personnel and administrative costs. This budget would finance 5,947 full-time equivalent positions, a decrease of 92 FTE's from fiscal year 1993.

With the ongoing National Performance Review, as well as our own review of the personnel system, our request at this time cannot reflect many of the new personnel management initiatives that will be emerging from the administration. I anticipate that we may wish to reallocate funds internally within our salaries and expenses appropriation to support some of the innovative or experimental approaches that we may wish to undertake, and I am hopeful the subcommittee will be supportive of flexibility in these matters. Of course, we intend to work closely with the subcommittee on any such plans that might need your review.

The salaries and expenses appropriation request totals $118.5 million and 1,690 FTE's, a decrease of $467,000 and 23 FTE's from current year budget authority. Despite these reductions, we will continue many important initiatives.

For example, our career entry group will provide a comprehensive database of Federal job opportunities throughout the Nation. Our field offices are being equipped to support the operation of this information system. In addition, we are continuing our efforts to automate OPM examining operations using scanning devices at local offices.

In the face of Governmentwide downsizing, it is paramount that steps be taken to recruit and retain a qualified Federal work force.

We are pursuing a variety of cooperative ventures to attract and place minorities, women, veterans, and people with disabilities into career fields such as accounting, health care, and the sciences. In addition, we are continuing the development and refinement of an automated outplacement system to help displaced employees from the Department of Defense and other Federal agencies find Federal jobs in which their skills and experience may be utilized.

In keeping with the President's emphasis on training, our human resources development group will be continuing to provide the policy framework for improving the skills and quality of the Federal work force, as well as working to identify and publicize the most practical cost/benefit models that document the effectiveness of well-designed training.

Additionally, we are developing materials and processes to assist agencies in operating management succession programs to prepare candidates, particularly women and minorities, to replace senior executives who retire in the next few years.

Our personnel systems and oversight group will, of course, continue to implement the new pay system for General Schedule (GS) employees, but on a new timetable. The administration, as you know, is proposing that there be no Federal pay increase in 1994, with reduced adjustments in 1995 through 1997, and that implementation of locality pay for GS employees be delayed until 1995 and be accomplished under a revised system. The delay not only is an integral part of the overall deficit reduction program, but also will permit the members of the President's Pay Agent to address the difficulties that have surfaced thus far in attempts to compare Federal and non-Federal pay on a locality basis. We are hopeful that the methodological problems can be resolved.

Also in the pay area, we are building on the work of the Pay-for-Performance Labor-Management Committee and the Performance Management and Recognition System Review Committee in developing options on pay-for-performance.

I would also like to mention that we have established a new work and family center which will be providing guidance to agencies on creative approaches and available flexibilities to help their employees balance their work and family obligations.

For the administration of retirement and insurance programs, we are requesting a limitation of $88.5 million in transfers from OPM's trust funds to finance 1,562 FTE's. Of this amount, $6 million is to be available until expended for the costs of automating the retirement recordkeeping and processing systems under the Federal Employees' Retirement System.

Although the limitation will finance 22 fewer FTE's than the current year, we will be intensifying our ongoing efforts to disburse benefits to separated employees and survivors on the first day they are payable under the law. To do this, we are working to improve the skills of our employees and the capabilities of our on-line processing system.

We are also strengthening our internal control systems to increase the accuracy of benefit determinations and reduce erroneous payments, and we are modifying the automated systems and accounting procedures for our benefit programs to meet the requirements of the Chief Financial Officers Act of 1990.

I would now like to turn briefly to the President's deficit reduction proposals concerning Federal employee benefit programs. These changes are designed to bring Federal practice more in line with those of other employers. Through fiscal year 1998, these proposals will result in savings of approximately $10 billion.

The lion's share of the savings on employee benefit costs over the next five years results from the permanent elimination of the so-called "lump-sum retirement option," also known as the alternative form of annuity, or AFA.

Under AFA, a retiring Federal employee may elect to receive a lump-sum payment equivalent to his or her retirement contributions. In exchange for this payment, there is a lifetime actuarial reduction in the employee's annuity.

The Omnibus Budget Reconciliation Act of 1990 generally suspended this benefit through 1995, although retiring employees who are involuntarily separated or who suffer from life-threatening illnesses may continue to elect to receive the lump sum. The complete elimination of the AFA after the current general suspension would reduce outlays by over $8.3 billion during fiscal years 1996 through 1998.

The President also proposes changing the computation of survivor benefits under our retirement systems. Under current law, a retired employee who provides a survivor benefit receives a reduced annuity, but the reduction does not pay the full cost of the survivor benefit. We are proposing to reduce this subsidy by basing a survivor annuity on the employee annuity rate after the survivorship reduction. This would result in lowering the amounts payable to individuals who become entitled to survivor benefits after September 30, 1993. Savings are estimated at $476 million over the five-year period beginning in fiscal year 1994.

We are also making two proposals to help conform Federal employee benefits with those offered under the Social Security and Medicare Programs.

One proposal would eliminate the survivor benefits paid to children over the age of 18 unless they are full-time students in a primary or secondary school in which case they would receive benefits until age 19. There would be no change in the eligibility of disabled surviving children over 18 who are incapable of self-support. The proposed changes would conform to the criteria for Social Security benefit payments

to surviving children of covered workers, which have been in effect for over a decade. The proposal does not affect those receiving benefits before October 1, 1993. The estimated five-year savings are $108 million.

The other proposal would extend applicable Medicare limits on Part-B covered services to the relatively small number of annuitants, 65 and older, who are enrolled in the Federal Employees Health Benefits (FEHB) Program but are not covered by Medicare. As is currently the case for hospital benefits, this amendment would also require any physician or supplier providing services under Medicare to accept the Medicare Part-B fee schedule amount under the FEHB Program as full payment after applicable patient copayments are satisfied.

Our annuitants would incur no additional costs under this proposal, because physicians would be prohibited from charging them fees that exceed those charged individuals who are covered by Medicare. This proposal would yield Government savings of approximately $102 million during the five-year period.

As always, the OPM appropriation includes the Government contributions for annuitants covered by the Federal employee health and life insurance programs who, of course, have no employing agency to contribute the Government's share. For the Federal Employees' Group Life Insurance Program, the amount needed for fiscal year 1994 is $1.6 million. For health benefits, the amount is $3.5 billion, a reduction of nearly $700 million from the fiscal year 1993 amount. This decrease largely reflects the expiration in 1994 of the so-called "phantom formula," which was adopted when Aetna withdrew from the FEHB Program.

For the Civil Service Retirement Fund, we are requesting an appropriation of about $7.1 billion in current authority. This payment, which is required under the financing system established in 1969 by Public Law 91–93, represents the 30-year amortization of retirement costs attributed to pay increases and benefit liberalizations.

The President's budget also would require the Postal Service to pay, over 3 years, the remaining liability for health benefits and retirement cost-of-living adjustments previously provided to Postal Service annuitants. The Congress has previously established the principle that the Postal Service should fully finance the cost of benefits for its employees since the postal reorganization in 1971. While legislative remedies have been enacted to prevent future subsidies from occurring, and to partially reimburse the benefit programs for prior payments for postal annuitants, not all previous subsidies have been reimbursed. These additional payments will recapture the balance of benefit payments previously financed by the general fund of the U.S. Treasury. Enactment of this proposal would result in receipts of $116 million for health benefits and $231 million for retirement each year in fiscal years 1995 through 1997.

Thank you. I would be glad to answer any questions you may have.

STATEMENT OF PATRICK E. MCFARLAND

Mr. Chairman and members of the subcommittee: My name is Patrick McFarland. I became the Inspector General at the Office of Personnel Management in August of 1990. I appreciate this opportunity to identify and promote our fiscal year 1994 appropriation request. The total amount of this request is $10,767,000 and 120 FTE.

The Office of the Inspector General conducts and coordinates audits and investigations of Office of Personnel Management activities to promote economy, efficiency, and integrity in the agency's operations. In addition, Inspector General operations are designed to detect fraud, waste, and abuse of authority and funds.

To ensure that this mission is accomplished, the Office of the Inspector General is organized into three major program areas. These areas are audits, investigations, and administrative sanctions.

The audits program continues to be very successful. Since the beginning of fiscal year 1991, audits of insurance carriers in the Federal Employees Health Benefits Program have identified recommended recoveries of $89 million. In addition, a limited scope audit of the Office of Personnel Management's financial statements for the period ending September 30, 1991 was conducted during fiscal year 1992 and it identified many deficiencies in internal controls and accounts. We also continue to audit the local campaign organizations involved with the Combined Federal Campaign. The Combined Federal Campaign is the largest employer-sponsored charitable drive in the United States, with about 500 participating local campaigns, collecting $200 million in pledges.

The investigations program made great strides in fiscal year 1992. A total of 90 investigation cases were worked and 460 investigative complaints were handled last year. We fully anticipate that this program will continue to expand in the future

and that financial recoveries due to investigative findings will continue to be significant. As an example, a recent investigation of an issue identified in a routine health carrier audit resulted in the recovery to the trust fund of $3,190,595, of which $640,178 was directly attributable to the investigative efforts.

We have also made significant progress in implementing the debarment program under the Federal Employees Health Benefits Program (FEHBP) since I requested that my office be assigned this responsibility in July of 1991. In order to protect Government employees from health benefit providers who have been suspended from participation in Medicare or other agencies' programs and as a result of my office's efforts, OPM announced on January 29, 1993 its intention to adopt the nonprocurement debarment and suspension common rule. Since early April, OMB has been reviewing OPM's draft final rule. We expect to publish this rule in the Federal Register in the near future.

In closing, I would like to stress the importance of strict accountability. All work performed by the Office of the Inspector General is predisposed to assure the President, the Congress and the taxpayer that when fraud, waste, abuse or mismanagement are identified, corrective actions will be taken. I will be happy to answer any questions that you may have.

OPM BUDGET OVERVIEW

Senator DECONCINI. Mr. King, we received your request for fiscal year 1994 and it appears that very little initiatives have been included. Instead, your budget appears fairly lean and in compliance with the President's administrative staff reductions all your administrative accounts with the exception of the revolving fund are frozen at the current service level with the only increase requested to cover the increased cost of maintaining current level and to cover GSA rent increases.

For the revolving fund under other programs, you are requesting two program increases—$1 million to conduct quality studies and $500,000 to automate agency staffing. Can you explain why you need these increases, in light of the President's Executive order? What happens if Congress doesn't fund them?

Ms. LATTIMORE. The current level in GSA is basically our attempt to keep pace with rising costs so that we don't cause ourselves to dig a deeper hole. The retirement initiatives are those to keep pace, which Mr. Smith can speak to, for the benefits in that particular program.

The quality initiatives and agency staffing are initiatives that we felt were of a sufficient magnitude in supporting our programs for outreach and employees for the public service—they were well worth the initiatives.

Mr. Klein can probably speak in more detail on the programs, but certainly they are important enough that they stay priorities with Mr. King.

Senator DECONCINI. What happens if you don't get the money? You just can't do it?

Mr. KING. Mr. Chairman, we will live with what we get. It won't be done as effectively. There are some issues, obviously. We don't control rent. We would have to find something we could remove.

Senator DECONCINI. Have you thought of some contingencies where you would get those funds if we don't get them here?

Mr. KING. I have thought about it, but I don't have the answers yet. We will make do.

Senator DECONCINI. I realize that you have no leverage at GSA. They just tell you what you have to pay.

Mr. KING. It is not exactly a competitive market, sir. [Laughter.]

IMPACT OF BUDGET PROPOSALS ON FEDERAL EMPLOYEES

Senator DECONCINI. Regarding the Federal employees and their cuts, the administration has proposed two approaches to reducing Federal personnel cuts for deficit reduction: cutting Federal pay and benefits; and cutting Federal employment.

I would be the first to agree that everyone needs to make a contribution to deficit reduction, but I also believe that it should be equal and fair. The fact that complaints by Federal employees state that they are being singled out for a double measure of sacrifice seems accurate, from what I understand. They have some valid and legitimate arguments on the fairness issue.

Have you analyzed this at all, Mr. King? In your view, what impact will the administration's budget proposal have on the Federal Government's ability to recruit and retain qualified employees?

Mr. KING. I think one of the issues is what the marketplace will bear. The marketplace has been dynamic in its changes.

As you know, Mr. Chairman, Sears, Roebuck & Co. is presently going through a major overhaul, as are IBM and other corporations. We talked about one of our local banks letting a substantial number of its people go as part of cost-cutting.

Everyone who is caught in one of those situations—and we represent, if you will, America, Incorporated, the largest employer in this country, the employees may feel that they have received a double hit, just the same as Ford employees felt that way, the same way as Chrysler felt, the same as IBM is going to feel it, and the same as Riggs' employees will feel it.

If it is your corporation that is being affected, and that corporation looks within itself and talks about itself in a corporate sense, then who else would it turn to? I mean that in a rhetorical sense. It has to turn and look at its own employees and then in reason try to measure what would be fair and equitable in the marketplace.

From what we can see, I don't think we have been negatively affected at all on the recruiting end of things.

Mr. KLEIN. In fact, the number of applicants is considerably up over what it was a few years ago.

Senator DECONCINI. And what is that volume?

Mr. KLEIN. We have, for example, for administrative careers for young professionals coming out of school, we have 85,000 young people on our list. We filled since October about 300 jobs, because of the downsizing of the Government.

Senator DECONCINI. What is your anticipated attrition?

Mr. KLEIN. Attrition has been about 6 percent overall, but about 2.5 percent quit rate.

Senator DECONCINI. Quit rate?

Mr. KING. And last year was the most that it was in many, many years.

Senator DECONCINI. So the attrition is coming down?

Mr. KLEIN. Yes, it is.

Senator DECONCINI. And the applicants are going up?

Mr. KLEIN. That's correct.

For example, in the Washington area, 2 years ago we received an average of seven applicants per vacancy. This year it is 25.

Senator DECONCINI. What is the quality of those applicants?

Mr. KLEIN. Quite good. As an example, in the last 2 years, with our new hires from college, about 80 percent of those rank in the top 25 percent of the class and over 60 percent in the top 10 percent of the class. So we are getting very top quality young people coming in.

DOWNSIZING/REDUCTIONS IN FORCE

Senator DECONCINI. Senator Bond had some questions along this line.

Every public indication has been that the reductions are going to be made—this 100,000 force—from attrition. Can that happen?

Mr. KING. Yes, it can.

Senator DECONCINI. And during the hearings that he had last week in Government Affairs or some other committee, he received an indication that reductions in force would be necessary in addition to attrition. Are you saying that you do not think that will be the case?

Mr. KING. It shouldn't. You can anticipate even at the lowest conceivable numbers over 300,000 on a straight-line projection. That is an extremely conservative number, Mr. Chairman.

Senator DECONCINI. So you don't anticipate any major RIF's?

Mr. KING. I don't. Defense is a separate issue, but in all the other agencies, you may end up in a single section where there will be adjustments on salaries and costs, and let's say that no one in your unit leaves. We're looking at Governmentwide. But on that vertical organization, if they don't leave, then there is a decision to be made.

We believe that at OPM we will try to structure some model approaches using our own agency as that model. We will have that established very shortly, Senator, and will keep you and the staff advised on an ongoing basis. We would like to have a model where we would have a management profile looking across the agency rather than looking at it in a channeled fashion that would force RIF's.

Senator DECONCINI. Your testimony is that outside of exceptional agencies where there just are no retirees—to be in compliance, they would have to RIF.

Mr. KING. Right.

Senator DECONCINI. Do you have any idea now what agencies that would involve?

Mr. KING. No; I don't think there is any kind of a clear profile, but if we should use the model we're talking about, I believe whatever agency it is can manage its way through that without RIF's.

Mr. KLEIN. Mr. Chairman, the Defense Department is the most severely affected.

Mr. KING. That is our exception.

Senator DECONCINI. The whole Defense Department?

Mr. KLEIN. Yes; but even there they have reduced 160,000 people over the last 3 years and only 10 percent of those actually lost jobs. They would use attrition and early retirement authorities. That number is also lower because they have used cash separation incentives of $25,000, which have made a major impact. We think we can make even a bigger dent in that actual loss percentage.

Senator DECONCINI. I will submit a question to you from Senator Bond to lay out the procedures of those that are RIF'd. ONDCP is going to end up with a RIF of about 70 percent of their office. He wants to know their rights and how long the process takes. I will submit those to you and we would like to have that for the record.

COST OF GOVERNMENTWIDE PAY INCREASE

Mr. King, if the Congress were to mandate a 2-percent COLA in fiscal year 1994 for all Federal employees, do you have an estimate of what that would cost?

Mr. KING. I can get that for you, Senator.

Senator DECONCINI. Thank you.

[The information follows:]

According to the Office of Management and Budget, the cost of a 2-percent increase for all Federal employees, effective January 1994, would be approximately $1.4 billion.

LAW ENFORCEMENT CLASSIFICATION AND PAY SYSTEM

Senator DECONCINI. The directive of the Federal Pay Reform Act of 1991 recommended a separate pay and classification system for Federal law enforcement and required the Office of Personnel Management to develop a plan and report back to Congress in January 1993. For whatever reason, the Bush administration did not comply with the requirement under the law, but left this issue to be addressed by the new administration.

I would like to know if you have had a chance to review the OPM plan. If so, what is the status of the separate pay classification system for Federal law enforcement.

Mr. KING. OPM completed the study in mid-December 1992 so it would be consistent with the Senate's wishes.

We forwarded it for clearance, as required by the internal processes.

Of course, there was a transition, so we sent a followup letter on February 16, 1993, requesting that the report be given priority attention. We wanted to bring this to the attention of OMB's new director and the new staff, just in case there was an oversight because of the transition.

We have yet to hear from them. We have placed calls.

Senator DECONCINI. Where is this?

Mr. KING. OMB.

Senator DECONCINI. Didn't OMB send it back to you?

Mr. KING. No, sir; I haven't seen it.

Senator DECONCINI. I am advised that OMB has written to us saying that they intend to get with you very soon and resolve this.

Mr. KING. I look forward to that, Senator. As soon as they do, you——

Senator DECONCINI. Do you have any meetings set up?

Mr. KING. No, sir; we have tried to reach them to establish a meeting. I think right now we could settle things, but they are not responding to us at this time.

Senator DECONCINI. We received the OPM preferred option for law enforcement pay last December. I must say that I was somewhat disappointed with the plan and pleased that OMB hopefully

has turned it down. I was particularly concerned with OPM's definition of law enforcement, which appears too narrow in scope. I have also received comments from numerous law enforcement organizations and agencies which feel that the OPM plan is lacking in many ways.

Do you have any thoughts as to where this should be improved since you have seen the same plan? Or are you just waiting to consult with OMB and see what their objections are?

Mr. KING. I am waiting for them, sir, and then we'll take it from there.

Senator DECONCINI. Do you have an opinion on the OPM plan that was put forward?

Mr. KING. Not on a personal basis.

Jean, did you have anything on this?

Ms. BARBER. The scope was certainly the most controversial issue on the whole project. There were opinions all over on that.

Senator DECONCINI. Mr. King, you are prepared to address this whole matter from scratch after you hear from OMB?

Mr. KING. Absolutely. I have no option at this point, and I intend to.

Senator DECONCINI. A lot of work went into passing that bill. I would hate to see it so diminished and cut from what was the intent by OPM. I am not suggesting that you are going to do that, but it certainly is a temptation, particularly when we are attempting to restrain the budget, which I understand. To me, it is very clear as to the intent of Congress.

I only urge you to look at it in that vein, even though there is obviously a need for all of us to reduce costs. But not to follow the intent of Congress for law enforcement I think would be a real violation of what we all intended here. If we have to cut, that is something else. But it seems to me so important to attempt to follow the intent of the Congress.

POSTAL SERVICE BENEFIT LIABILITY

Let me address an issue that has come up in the past with respect to the Postal Service contribution to the civil service retirement and disability fund and the Federal Employees' Health Benefit Plan.

The Omnibus Budget Reconciliation Act of 1990 required the Postal Service to pay a total of $4.7 billion to offset the cost of these benefits to former Postal Service employees. These payments were amortized over fiscal year 1991 through 1995 with accrued interest of 5 percent. Chairman Clay of the House Committee on Postal Office and Civil Service and Senator Glenn's Committee on Government Affairs both have stated that the OBRA of 1990 represents the last step in eliminating the hidden personnel subsidies allegedly received by the Postal Service.

If this is being stated by the two authorizing committee chairmen who authorize the payment—and I believe the Post Master General also gave us his opinion with the same feeling and will provide documents that will substantiate that this is the last payment—why is it that OMB has proposed for the second year in a row that additional payments totaling over $1 billion through the period of fiscal year 1994 through fiscal year 1997 be paid to OPM to cover offsets?

Mr. KING. Mr. Smith.

Mr. SMITH. If there are disagreements about calculations and what is really due, we would be happy to look at those. They have not been brought to my attention.

Senator DECONCINI. You mean that this was a final number payment, not to be continued?

Mr. SMITH. I don't know about that in terms of the finality, but in terms of the dollars, our work shows that the previous actions have recovered the majority of the subsidies, but not this piece of it. So the request for this is to in fact give the last remaining——

Senator DECONCINI. Can you provide us what you have?

Mr. SMITH. Certainly.

Senator DECONCINI. I take it that the payments authorized over fiscal years 1991 through 1995 with accrued interest of 5 percent—do you dispute the amount of money or that the payments were authorized for that period of time?

Mr. SMITH. We don't dispute what was paid. But we are saying that that was not all of the subsidy that existed. I am aware that there is unhappiness that the bill keeps getting larger, but I would be glad to work through the technical aspects if someone disagrees.

Senator DECONCINI. That is what the Post Office thinks. That is my inclination, but I am not sure. What guarantee does the Post Office have that at the end of fiscal year 1997 the administration will not try to place additional liabilities on them at that time?

We need to make the record very clear what this Congress thinks is the cutoff date and the amount of money that is due. Then if somebody wants to change that, they can do that.

Mr. KING. We can do that. We will supply material for you, sir.

Senator DECONCINI. Thank you.

[The information follows:]

The amounts of the proposed back payments are based on calculations originally produced by the Congressional Budget Office [CBO] and subsequently updated by the Office of Management and Budget. CBO's work was used to establish the Postal Service retirement and health insurance payments mandated in the Omnibus Reconciliation Acts of 1989 and 1990. The proposal in the fiscal year 1994 budget extends these acts to their logical conclusion, which is to recapture the present value of all remaining contributions the Postal Service would have made had it assumed full liability for the employee benefit obligations it incurred since being reorganized in 1971.

EMPLOYER COSTS OF BENEFITS

Senator DECONCINI. Mr. Smith, do other Government agencies pay employer costs of health benefits, or COLA's, during retirement of its employees? Or is this funded by the General Treasury?

Mr. SMITH. The easy distinction to see is on-budget and off-budget entities. Where they are on-budget, the money is all part of a common pot, but where they are off-budget, we do treat them differently. The only one of any significant size is the Postal Service. There are others, but they are small.

NONCOMPETITIVE CONVERSION TO CAREER POSITIONS/RAMSPECK ACT

Senator DECONCINI. Director King, after the election occurred last November and the change of party in the executive branch occurred and was imminent, it appeared that there was a substantial effort to protect noncareer appointees in the most egregious cases

that I ever heard about. Senator Pryor raised the issue and his Federal Service Subcommittee asked GAO to review some of the postelection appointees.

I assume that GAO worked with OPM on this effort. Can you tell us your findings and whether or not you believe the act was abused?

Ms. LATTIMORE. I will speak to this and then I will have Jean, whose staff actually did the work in our compliance and evaluation group.

The allegations were shared with us by the Senator. We went forward and did investigations of those particular components. I will have Jean speak to the particulars, but we provided a report that was transmitted to both the Senator and to GAO and two corrective actions were mandated in our report, signed by me.

Jean, why don't you share the depth of the investigation?

Ms. BARBER. We did work very closely with GAO on this. Our investigation centered on the Department of the Interior where many of the allegations were made. We conducted a review of all done in the last calendar year in the Department of the Interior. We did find that the spirit and the letter of the act had been violated.

Senator DECONCINI. You did?

Ms. BARBER. Yes, we did.

Senator DECONCINI. Mr. King, do you think there ought to be some legislation correcting this? Are you going to be in a position to suggest any?

Mr. KING. Mr. Chairman, as a former employee of the U.S. Senate, I viewed this act as kind of our property while there. I view it, now that I am sitting at OPM, as something that the Congress wanted to design with a specific set of objectives in mind, that I certainly viewed as wholesome and respectable.

I think it is a rather unique thing. I think it focuses exclusively on the Members of both Houses and the management of their staffs and the folks who work with them.

I would feel it to be presumptuous for me to come forward, unless asked, to make any suggestions of that type. I would rather be responsive to the needs of the committees and the Members as they see them as they look ahead.

Senator DECONCINI. Have you read the report?

Mr. KING. I have, Mr. Chairman.

Senator DECONCINI. And the findings?

Mr. KING. Yes, Mr. Chairman.

Senator DECONCINI. Do you concur with them?

Mr. KING. Yes, sir.

Senator DECONCINI. In your opinion, there were abuses?

Mr. KING. Sir, I thought they were egregious. There was no question that they were egregious, that they were manipulative, and clearly in the face of any intent of any reasonable person. I thought they were disgraceful.

Senator DECONCINI. Thank you for that statement. From the outside, it sure looks like that. I appreciate your candor, Mr. King, and what your background is. I don't want to unnecessarily put you on the spot, but it seems to me that if you think it was egregious and you understand the intent of the Congress and how possessive

we are of those kind of rights here, you would be in a very opportune position to make some suggestions on correcting those abuses.

Maybe you don't have to make them, but they are going to have to come with your name. Perhaps your staff could offer——

Mr. KING. I don't want——

Senator DECONCINI. Perhaps you could give some suggestions on where the abuses occurred and how you could address at least those abuses.

Mr. KING. I would be delighted to work with you as a response. I would view it as presumptuous if we were to come forward voluntarily.

Senator DECONCINI. How would you like to be asked? [Laughter.]

Mr. KING. You are doing it, sir. I believe you are asking that we draft those things up that deal the issues that came before us during this particular process, and actions we think would stop the sort of egregious things that we witnessed.

Senator DECONCINI. That is really what I am asking. I don't want to put you in the position of contradicting your former employer up here, but you are in a situation—now that you have all the reports and Ms. Barber has done the investigation and compiled all this—to make some constructive suggestions that might be respected up here on both sides of the aisle.

Mr. KING. I would be delighted to, Mr. Chairman.

RELOCATION ALLOWANCE—LAW ENFORCEMENT

To change subjects, during last year's hearing from OPM Director Newman, she stated that the final regulations to implement the relocation allowance for law enforcement was just about in place. She also indicated that there would be a provision in the regulation that would allow agencies with directed reassignment to petition OPM for authority not to use a case-by-case approach.

Do you know if the relocation allowance regulations are currently in place? Do they include this provision?

Ms. BARBER. Yes, sir, they do.

Senator DECONCINI. Thank you.

DEFENSE OUTPLACEMENT REFERRAL SYSTEM [DORS]

Last year, Mr. King, OPM reported that they were involved in a joint program at the Department of Defense trying to minimize the impact of downsizing, base closures, and involuntary separations. This job referral program called Defense Outplacement Referral System [DORS] is to provide rapid referral to Federal, State, and private sector employers.

Can you please give the subcommittee the status of the program?

Mr. KLEIN. We have about 5,000 people listed on the referral system. Agencies and State and local governments can call in on a touch-tone telephone and receive a referral from us. We have placed about 500 people so far through that system. It is a voluntary system. We tried to link agency vacancies with the background qualifications of displaced Defense Department employees.

Actually, oddly enough, it works better than our forced placement programs. We are able to sell highly qualified people from Defense to other agencies.

Senator DECONCINI. What percentage of success have you had with the placement of individuals?

Mr. KLEIN. One of the difficulties we have had is that many domestic agencies don't employ, for example, ship-fitters, welders, and so forth that come out of defense installations. But where we have matches, our placement rate is quite high, about one out of three.

The difficulty is often that we have immobile people who want to stay in the local area.

Senator DECONCINI. How many people does OPM currently devote to the DOD outplacement?

Mr. KLEIN. We probably have one or two FTE's devoted to that. It is primarily an automated system and is all handled through telephones and PC linkages.

By the way, we now have upgraded our job vacancy listings. We update that every day with vacancies from all agencies. That is now in place.

Senator DECONCINI. Mr. King, you are going to get off pretty easy today, I guess. [Laughter.]

SURVEY OF FEDERAL EMPLOYEES [SOFE]

Last year, Mr. King, I asked some questions about the survey of Federal employees on human resource management. We were told that the survey was being processed and that OPM would issue a short report of general Governmentwide findings and report back to Congress.

Has OPM issued this short report?

Ms. BARBER. Yes, sir. We have.

Senator DECONCINI. Will we have a chance to see that? Will you be sending that to Congress?

Ms. BARBER. We will certainly give you a copy.

Senator DECONCINI. When was that finished?

Can you tell me anything about it?

Ms. BARBER. It was finished some time ago and I think some distribution was made.

Senator DECONCINI. Maybe we have it.

Ms. BARBER. I don't know, but it has been out.

Senator DECONCINI. Can you give us any idea of some of the most common responses?

Ms. BARBER. The questionnaire was very long and covered many, many different areas. It was really a very, very wide range. We found a pretty high level of satisfaction of people feeling that they were productive in their jobs. We found some needs that were unmet. We found, for example, some that we had never known before, that 12 percent of our people have elder care responsibilities and would like some help with that. We found out the number of people who were interested in child care assistance. We found out a great many issues like that.

SES RETIREMENTS AND SUCCESSION PLANNING

Senator DECONCINI. Last year, you reported that up to 25 percent of the Senior Executive Service members are expected to retire in fiscal year 1994. Is it still projected to be that high?

Mr. KING. It depends on who you talk to.

Senator DECONCINI. What has OPM done to help agencies prepare for this?

Mr. KING. We have worked on that.

Ms. LATTIMORE. Our Human Resources Development Group has been doing a number of activities working with agencies on developing succession planning and approaches to this. Those activities certainly have been adjusted as the projections have changed and the large exodus seems to be dwindling. But we have been very proactive in trying to get agencies to focus so that in the event they experience it they have a succession plan of placement initiatives in place.

Mr. KING. In that, we're trying to have the agencies be sensitive to what is perceived as a glass ceiling for a number of people so that in this succession, and as they are doing their management tracking through training and other aspects, that it be inclusive so that if there are changes that we begin to get an SES core that also reflects the face of our country.

SUBMITTED QUESTIONS

Senator DECONCINI. Thank you, Mr. King. Thank you for your testimony. We will submit a few other questions for the record.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR DeCONCINI

OPM BUDGET OVERVIEW

Question. In the Revolving Fund under Human Resources Development you also request increases totalling $2,985,000 for increased costs of non-personnel services and as a result of the change in the Human Resources Development program's share of administrative and information resources services. Can you please provide an itemized list of these costs and explain the need for the increases by activity?

Answer. As you have indicated, this increase is included in the Revolving Fund for Human Resources Development (HRD). Therefore, no budget authority is requested.

The increase includes $2,253,000 for inflationary increases for non-personnel services, based on the level of business expected to be generated and funded by other agencies' payments to HRD.

In addition, the HRD Revolving Fund's relative share of all OPM activity will increase in FY 1994 as a result of anticipated decreases in the Investigations Revolving Fund Program. Therefore, HRD's share of funding for agencywide services will increase expenses by $732,000. Agencywide services include the activities of Administrative and IRM Services, and Executive and Other Services as specifically discussed in the Salaries and Expenses section of our budget submission.

It should be noted that while HRD obligations are expected to increase somewhat, obligations for the total Revolving Fund will decrease by approximately $4.2 million in FY 1994.

The following table itemizes the cost increases in HRD:

Object Class:	FY 1994 CHANGE
Travel and Transportation of Persons	$46,000
Transportation of Things	6,000
Communications, Utilities & Miscellaneous Charges	76,000
Printing and Reproduction	72,000
Other Services	1,886,000
Supplies and Materials	98,000
Equipment	69,000
Subtotal Non-Personnel Services	2,253,000
Agencywide Services	732,000
Total	**$2,985,000**

ADMINISTRATION PLAN TO CUT FEDERAL EMPLOYMENT AND PAY

Question. In the past couple of years, it seems to me that the agencies which I fund, particularly in the law enforcement area, have not experienced the attrition that they thought they would when they formulated their budgets. Some have said that due to the pay increases associated with law enforcement and the overall senior executive pay raises, most Federal personnel who are eligible to retire are staying on for three years to get their 3 high salary years raised before their retirement. If a COLA is not provided to Federal employees in fiscal year 1994, couldn't this in fact keep those at the higher salary levels in place for another year and discourage attrition since employees are still looking to secure their "high three"?

Answer. An employee's "high three" salary is based on salary actually received rather than the salary rate in effect at the time of retirement. Thus, for a pay increase to affect an employee's annuity, the employee must earn salary at that rate, with three years giving the increase a "full" effect.

As a perfect example, a major pay increase in senior executive salaries took place in January 1991, and, as noted in the question, there has been a significant decrease in attrition following that pay increase. Attrition for career Senior Executive Service appointees was 3.1 percent in 1992, for example, compared with an annual average of 8.3 percent before the pay increase. This decrease in attrition has occurred as executives are waiting to secure a new "high three" based on the pay increase. By January 1994, however, the 3-year period will have been completed, and the decision regarding a pay adjustment at that time should have little impact on those individuals who have secured their "high three" by that date.

In more general terms, it is extremely difficult, if not impossible, to predict the retirement patterns of Federal employees who are faced with the likelihood of a pay freeze and/or smaller future pay increases. However, it is not clear that a pay freeze, by itself, would be likely to result in a slow-down of retirements or other attrition. To be sure, employees who receive an unexpected or unusually large pay increase in a year when they are eligible for retirement might well delay their retirement for another 3 years to lock in a higher average pay rate for their annuity computation. Similarly, employees who expect a large pay increase in the near future might delay retirement. It is difficult to see, however, how a proposal that delays or reduces expected future pay increases would have this effect generally; some workers might even be encouraged to retire earlier.

Question. Has anyone done an analysis to determine whether the costs would be higher than the costs of the 2 percent COLA if senior level personnel do not leave for another year?

Answer. OPM has not performed any analysis of the cost of senior executives delaying their retirement by a year.

Question. The Administration's proposal requires agencies to reduce staff by 1.5 percent in FY 1993 and 1 percent in FY 1994 and 1995. I have a concern about the reduction in staff in the Federal law enforcement area. At a time when it is of the utmost importance to have every law enforcement official available to fight crime in this country, the Administration reduces Federal law enforcement staffing. At the same time the President proposes to fund an initiative to put 100,000 local law enforcement officers on the street. Has the Administration given any thought to exempting Federal law enforcement from these staffing reductions or reducing the percentage of their annual reduction?

Answer. We defer to the Office of Management and Budget for a response to this question.

Question. I see from your budget justification that in compliance with the Executive order on personnel reductions, OPM intends to reduce 92 full-time equivalent positions across the board in fiscal year 1994. Your justification states that the spread of these reductions may be altered based on the new Director's review. Director King, have you yet had a chance to review the personnel reductions and if so, can you tell us where you plan to take the cuts in fiscal year 1994?

Answer. As I said in my testimony, with the ongoing National Performance Review, as well as our own review of the Government's personnel system, we may wish to reallocate funds internally within our Salaries and Expenses appropriation to support some of the personnel management initiatives that the Administration will propose. As soon as recommendations for Federal human resources management emerge from the National Performance Review, I will examine their potential effect on the current distribution of agency funds. Although I am not expecting major shifts in program focus at this time, we would work closely with the subcommittee on any such plans that might need your review.

Question. What assurances can you give me that the cuts will not have an adverse impact on the processing of retirement, health, or disability claims?

Answer. As I review the agency's programs and the required cuts, I will be sensitive to the customers we serve and will seek to make the reductions in the least

disruptive way. Further, it should be noted that we cannot shift resources from the activities you mention, which are funded out of our Trust Funds, to other OPM activities.

Question. What assurances can you give me that your reductions are in complete compliance with the President's Executive order, i.e., that 10 percent of the cuts will be taken in SES, GS-15 or GS-14 positions?

Answer. We will closely monitor all of our FTE reductions and will separately track GS-14 through SES positions to ensure that we comply with the President's Executive order.

LAW ENFORCEMENT CLASSIFICATION AND PAY SYSTEM

Question. Many agencies feel any proposal for a new law enforcement pay and classification system should address premium pay or the FLSA. There seems to be a concern about the pay disparities and other problems associated with administration of premium pay/FLSA throughout the Federal Government. Will OPM address this concern in its report to Congress?

Answer. The problems associated with the administration of premium pay for Federal employees under title 5, United States Code, and overtime pay entitlements under the Fair Labor Standards Act of 1938, as amended, are not restricted to law enforcement occupations. The Administration has not yet fully determined how these problems should be addressed or what would be the most appropriate vehicle for attempting to resolve them.

Question. Does the President's budget include funding for fiscal year 1994 of the full costs to implement a new Federal law enforcement pay and classification system? Are any new costs required?

Answer. The Administration has not yet made a final determination on the nature of its proposal for a new Federal law enforcement pay and classification system. Therefore, we are not in a position to answer this question. The OPM staff proposal that was made public late in 1992 did not include any changes that would result in new costs associated with pay for employees who meet the current definition of "law enforcement officer."

HEALTH PROMOTION AND DISEASE PREVENTION PROGRAMS

Question. Director King, as you may already know, along with my colleague from Hawaii, Senator Inouye, I have pressed OPM to provide funds to promote health promotion and disease prevention programs. For fiscal year 1994, in the first year I can remember, I am happy to see that the language I have inserted every year

earmarking up to $1 million for these programs has been included in your budget request. Can you give an update on the progress being made in this area and what if any, improvement you feel should be made in Federal employee programs in health promotion and disease prevention?

Answer. Progress Made: Since 1989, OPM has been receiving funding for health promotion and disease prevention programs in addition to existing OPM program activity in this area. Since that time, the majority of the funds have been used to support such programs through efforts by the Department of Health and Human Services and disease prevention and health promotion centers at seven universities, including the University of Arizona and the University of Hawaii.

In the first year (1989), OPM and the Public Health Service enlisted the help of the Association of Schools of Public Health to coordinate a review of existing Federal worksite health promotion and disease prevention programs. Six universities were involved in a review of 11 Federal worksite programs. This assessment resulted in a report designed to assist Federal agencies in the development of effective programs.

Subsequent year activities by the universities include (in addition to on-going technical assistance to Federal agencies): (1) six conferences involving more than 100 Federal agencies and including a wide variety of workshops on marketing, model programs, the role of management, injury prevention (i.e., back care and ergonomics), and health promotion (e.g., stress management, monitoring health issues, Employee Assistance Programs); (2) the development of an eight-unit videotape series for distribution to libraries and worksites; (3) a worksite health promotion library; (4) newsletters focusing on health promotion and worksite wellness themes; (5) teaching modules; (6) a technical assistance guidebook to help agency staff develop worksite programs; and (7) technical assistance notebooks which outline methods of data collection and program assessment techniques. This year, planned activities by the universities include the production of a video on smoking cessation, the development of a Health Risk Appraisal (HRA) protocol for incorporation of HRA's into worksite health promotion programs, and continued technical assistance to Federal agencies.

In addition to these university-centered activities, since 1989 OPM has funded (1) a report on the effectiveness of economic incentives in creating lifestyle changes; (2) a national health and fitness conference; (3) a five-year evaluation by the Public Health Service of a Federal health and wellness program at the St. Louis Federal Fitness Facility (U.S. Army Aviation and Troop Command); (4) an informational brochure for Federal workers outlining health promotion services available at

Federal worksites; (5) a conference on "Stress in the 90s: A Changing Workforce in a Changing Workplace"; and (6) the development of a training module on Federal health and fitness programs to be included in management training courses such as the Women's Executive Leadership Program.

Suggested Improvements: With regard to program improvements, we believe there is a need for the development of model health promotion and disease prevention programs for culturally diverse Federal populations. In addition, although there is widespread acceptance of the value of worksite health promotion programs in both the public and private sectors, there is a growing challenge to provide appropriate resources to sustain such efforts in the context of cost cutting and budget reductions. We need to address the concern that these programs may be "perks" rather than constructive efforts to enhance organizational effectiveness by improving employee health and preventing disease. There is also a need to increase Federal agency understanding of the liability issues related to worksite health promotion programs. Specifically, agencies must include in their programs a sound risk management strategy that reasonably ensures the safety and well-being of program participants and staff, thereby reducing the potential for agency liability. OPM's program efforts will address these areas of needed improvement.

Question. How much money do you estimate will be made available for these activities in fiscal year 1993 and what are your projections for fiscal year 1994?

Answer. OPM has allocated $600,000 for fiscal year 1993 and projects approximately the same for fiscal year 1994.

RETIREMENT CLAIMS PROCESSING

Question. Last year, this Committee inquired about delays in the time it took OPM to process retirement claims. OPM testified that the turnaround time had greatly improved and the average wait was down to 9 days. Can you tell me if OPM has improved on this 9-day waiting period?

Answer. OPM has been able to maintain a 9-day processing time for placing retirees in pay status despite the tremendous workload surge resulting from the Postal Service's "rightsizing" program. Through the use of some innovative techniques, substantial overtime, and employee "extra effort," we were able to keep our high level of customer service.

Question. OPM also stated last year that OPM's efforts to improve agency retirement records submissions were showing results but further improvements were needed

in both timeliness and accuracy if they were to make initial payments to annuitants within 30 days. Have there been improvements by agencies in submitting retirement records in a timely manner and are there any agencies that are continually lax in providing the necessary information?

Answer. There have been additional improvements in the timeliness of retirement record submissions. The 80 percent Congressionally-mandated standard was met or exceeded from April through October 1992, and again in January 1993. Unfortunately, a few agencies, such as the D.C. government and the Department of the Army, have not been able to consistently meet the standard. We continue to discuss the situation with agencies that are having difficulties and attempt to assist them in any way we can to improve their timeliness.

Question. Are there any new initiatives included in your fiscal year 1994 budget request to expedite the processing of retirement claims?

Answer. In FY 1994, we expect to be operating in an environment characterized not only by declining resources but also by a relatively high number of retirements due to agency "rightsizing" efforts. Nevertheless, we plan to continue our efforts to disburse benefits to separated employees and survivors on the first day they are payable under law, upgrade communications equipment and increase the level of effort devoted to doing business by phone, and transform the Office of Retirement Programs into a customer-oriented organization.

FERS AUTOMATED PROCESSING SYSTEM (FAPS)

Question. During last year's hearings OPM stated that a contract for the FERS automated processing systems or FAPS would be awarded in the last quarter of FY 92 and FY 93 funds would be expended starting the first quarter of FY 93. Can you please tell me if the contract has in fact been awarded and if the work has been started?

Answer. The FAPS contract was awarded to Computer Sciences Corporation on January 19, 1993. An initial obligation of $7.4 million was made to cover the first phase of the contract. The contractor has begun the general design of the new system, and will install its initial ADP platform during this fiscal year.

Question. What is the status of the FAPS project as far as the conversion of the existing FERS retirement records?

Answer. The Individual Retirement Record (IRR) conversion is currently in the developmental stages. An interagency group, consisting of representatives from VA, USDA, Navy, Postal Service, and other agencies will meet

with representatives from both Computer Sciences Corporation (CSC) and OPM over the next few months. This group will assist CSC in developing a conversion system that addresses the compatibility requirements of the current recordkeeping systems of many Government agencies. According to the current schedule, a conversion pilot project will begin in June 1994, with select agencies. This project will mark the beginning of the actual record conversion. Once the pilot project is completed, individual agencies or groups of agencies will be converted on a task order basis. We expect the conversion of existing records will be completed late in FY 1996.

Question. Is it still OPM's best estimate that no-year funds and those appropriated in FY 93 will be sufficient to cover the full cost of the Individual Retirement Record (IRR) conversion?

Answer. Our current estimates show that additional no-year funds will need to be authorized in FY 1995 in order to complete the IRR conversion phase of the FAPS project. At this point, only $1.8 million of the no-year funds that have been appropriated will be available for this purpose. The remainder of our appropriated balance through the end of FY 1994 will be used as follows:

Description	$ (000's)
Hardware	3,733
Software	3,080
Platform Labor, Training, etc.	1,001
FAPS Design	3,464
Employee Subsystem	2,260
Financial Subsystem	2,069
IRR Conversion	1,815
Support Services	1,591
Other Costs	962
Development & Contract Administration	4,097
TOTAL	24,072

CITIZENS' COMMISSION ON PUBLIC SERVICE AND COMPENSATION

Question. The Citizens' Commission on Public Service and Compensation was scheduled to become operational in FY 93 and convene for its first meeting in February 1993. Can you tell us if the Commission has become operational and has it had its first meeting? In the fiscal year 1993 budget $41,000 was requested for GSA rental of space. Where are the Commission offices located?

Answer. The Citizens' Commission on Public Service and Compensation is not within the purview of the Office

of Personnel Management. The General Services Administration. might be more fully aware of the Commission's status.

FEDERAL HEALTH BENEFITS FOR ABORTION

Question. I see that the Administration has proposed to eliminate long-standing general provisions contained in our annual appropriations act on restricting the use of Federal funds for abortions, except when the life of the mother would be endangered. Can you please explain the justification for elimination of these general provisions?

Answer. The current language of the general provisions on use of Federal funds for abortions in OPM's annual appropriations act does not afford any flexibility regarding coverage. We believe that abortion coverage for Federal employees should be consistent with the Administration's broad, overall policy, and that people should not be treated differently simply because they work for the Government.

Question. Can you give us any idea of what the costs to the Federal Government would be if these provisions were eliminated?

Answer. We have no basis for accurately estimating such costs.

Question. A note accompanying the President's budget with respect to these provisions states that "The Administration will work with the Congress to facilitate an approach that is consistent with both Federal and State laws." Can you explain what "an approach that is consistent with Federal and State laws" means?

Answer. In administering a health insurance program that offers a wide choice of plans to Federal enrollees wherever they may live, OPM contracts with over 300 carriers that come under State and Federal jurisdiction in a variety of ways. While the law governing the Federal Employees Health Benefits Program grants OPM broad preemption authority (5 U.S.C. 8902(m)(1)), that authority has been exercised consistent with the best interests of the FEHB Program and the people it covers. The Administration will develop an approach in concert with the Congress that follows the same principle in relation to coverage for abortions.

Question. What specific time frame is the Administration contemplating in its working with Congress on the facilitation of an approach?

Answer. Since the matter involves appropriations language, the Administration will be working with the Congress throughout the appropriations process.

OFFICE OF THE INSPECTOR GENERAL

Question. For fiscal year 1994 you are requesting $4.253 million and 50 FTE's in the salaries and expenses portion of the Office of the Inspector General budget. This reflects an increase of $26,000 and decrease of 1 FTE from the fiscal year 1993 level. Pretty much, your budget request is literally to cover current services. When I review your workload indicators, however, it appears that you project you will be experiencing a 35 percent increase in investigation cases in fiscal year 1994. First, can you tell me what you attribute this large investigative case workload to, and second, how do you intend to handle the increase with a level budget?

Answer. The projected increase is based on several factors. First, we have experienced annual increases in the number of cases opened since the inception of the program at the beginning of fiscal year 1991. For example, during FY 1991, the Office of Investigations opened 27 investigative cases. During FY 1992, the number of cases opened increased to 64, and for the first half of FY 1993 we have opened 37 investigative cases. We are projecting these increases to continue for the next several years.

Much of the increase in workload is a result of our increased liaison activity with Federal Employees Health Benefits Program carriers to have them identify and refer possible cases of enrollee and provider fraud for our investigation. Investigative workloads have also increased as a result of our initiative to analyze civil service retirement annuity roll data to identify and investigate cases with conditions that would increase the likelihood of fraudulent benefits being paid.

We believe we have increased our proficiency in conducting investigative activities, thus reducing the impact of the expanded workload. Over the past two years we have gained tremendous experience in working health care and retirement fraud investigations. This experience has resulted in our being able to conduct a greater number of investigations with the same staff level. Based on these efficiency increases, we are continuing to manage our case load within current resources.

We are keenly aware of our responsibility to accomplish more with less, and we are doing that now. There will be no hesitancy on our part, however, to aggressively request more resources if and when priority cases, yielding significant return to the Government, begin to receive inappropriate attention and cannot be properly investigated.

QUESTIONS SUBMITTED BY SENATOR BOND

DOWNSIZING

Question. The Administration has proposed to reduce the number of civilian employees by over 100,000 in the next four years. There is a tendency for agencies to use attrition to accomplish these types of reductions. Attrition, however, does not always come in the grades and positions that agency heads would like to make reductions. Will OPM be looking at these reductions? Will OPM be assisting agencies? Will agency heads be given flexibility to make the reductions where they are necessary?

Answer. Each agency has the responsibility to make decisions concerning which positions are cut, when the cuts take place, and how this process is carried out. Although agencies have considerable flexibility in deciding which positions are abolished, an employee in a surplus position has the right to be in competition for another position under OPM's RIF regulations if the employee is faced with separation or downgrading.

To achieve the goal of cutting 100,000 employees over the next four years, OPM agrees that attrition is preferable over an involuntary RIF action. OPM monitors personnel activity, and is especially concerned with these types of cuts.

OPM is actively working with agencies involved with downsizing initiatives (including the Department of Defense, which must cut nearly 250,000 positions from 1989 to 1995). OPM carries out this role via components in our central office, as well as through our regions and area offices located throughout the country. OPM recognizes that RIF is often a last resort, not only for the employee, but also for the agency.

As a result, OPM encourages and assists agencies in implementing alternatives to involuntary separation when cuts are necessary. This includes, in part: approval of voluntary early retirement authority to allow senior employees to retire early and avoid the separation of junior employees; outplacement assistance to employees seeking other positions; and broader staffing tools to place surplus employees (e.g., authority for all agencies to modify qualifications requirements in making placements).

There are several current national placement programs, in addition to those run by the agencies themselves. The Defense Outplacement Referral System, a joint OPM-DOD effort, provides prospective employers with lists of qualified surplus employees from DOD, well before they are separated. The Displaced Employee Program requires Federal agencies, before they fill jobs

from OPM competitive registers, to give priority consideration to workers who have been laid off or have received a RIF notice from another agency. As required by last year's Defense Authorization Act, OPM lists merit promotion vacancies for agencies that accept applications from outside their own agency; under the same law, agencies must give full consideration to qualified displaced DOD employees.

Question. The President has also called for the reductions to include SES and GS-14/15 levels. Will OPM be monitoring this effort?

Answer. As far as the SES is concerned, OPM will be monitoring the reductions as part of its biennial allocation of SES positions for fiscal years 1994 and 1995. OPM will be providing SES allocations to agencies later this year following consultation with the Office of Management and Budget.

SES RETIREMENTS AND SUCCESSION PLANNING

Question. 1994 marks the three year mark since significant raises were given to the Senior Executive Service. There is broad speculation that a large number of eligible SES employees will choose retirement. How many SES will be eligible for retirement?

Answer. Approximately one-third (or 2,400) of the career SES members employed on September 30, 1992, will be eligible for optional retirement as of December 31, 1993.

Question. What is your estimate of those who will choose retirement?

Answer. The last time there was an executive pay increase of the same size as the 1991 increase, approximately 40 percent of eligible executives retired three years later when they had obtained a new "high three" average salary for their annuities. However, the national economic situation was different, and we have no clear-cut indication that anywhere near 40 percent of the eligibles (about 940 executives) will actually choose to retire in 1994.

Question. Will the decision by the Administration to change the cost of living adjustments for current and retired employees have an impact on that decision?

Answer. We do not know at this time what the impact will be. It is possible the changes may offset each other. The change in pay adjustments for current employees (no increase in 1994 and reduced increases in the following three years) might encourage eligible employees to retire. On the other hand, the discussed possible changes in the annuity adjustments (a cap on COLA's for

1994 and reduced COLA's for retirees under age 62) might encourage employees to stay in the Government.

Question. What role will OPM play in the replacement of these people?

Answer. OPM has played an active role in getting agencies to develop executive succession planning programs. OPM co-sponsored a Succession Planning Conference for agencies in April 1992 with the President's Council on Management Improvement. Almost 200 people attended this conference, representing 56 agencies. The conference presented models of ongoing succession planning programs and issues, and a report of the conference was distributed to all agencies (Attachment #1). OPM also has distributed statistical analyses of retirement eligibility to agencies and worked with individual agencies to develop and conduct SES candidate development programs.

TRAINING

Question. All agencies in Government are being asked to cut back. Usually when reductions are made the first thing to go is training. Training is an intricate part of delivering proper services. Does OPM get involved in looking at decisions of this type? Do agencies consult with you?

Answer. OPM's proposed regulations would require agencies to directly align their commitment of training resources to their strategic, business, and performance plans, and to decide budget priorities based on systematic needs assessments. We see these regulations as a major initiative in managing agency training resources. Moreover, the proposed regulations encourage agencies to view human resources development as integral to managing mission-critical programs, particularly in times of dwindling resources.

RETIREMENT

Question. The Civil Service Retirement System is being transformed by the changes that were made with the creation of FERS. How many employees are in the old system? How many in FERS?

Answer. As of September 30, 1992, approximately 1,300,000 active Federal employees were covered by FERS, and nearly 1,600,000 under CSRS.

By the year 1995, we expect the FERS population to overtake the CSRS population with about 1,500,000 employees under FERS and 1,400,000 under CSRS.

Question. Agencies are indicating that as new employees sign on agency costs are going up because of the contributions necessary. Could you give the commit-

tee a quick review of what is happening?

Answer. With the creation of FERS in 1986, Congress mandated that all Federal employees hired after December 31, 1983, be covered by FERS rather than the old CSRS. Congress also mandated that FERS be fully funded in advance through employee and agency contributions.

For most CSRS employees, the employing agency must contribute 7 percent of basic pay to the Civil Service Retirement and Disability Fund (CSRDF). For most FERS employees, the required agency contribution for retirement is approximately 22.5 percent, which includes 12.9 percent for FERS coverage, 6.2 percent for Social Security coverage, and an average of 3.4 percent in contributions to the Thrift Savings Plan.

Thus, when new FERS hires replace workers covered by CSRS, agencies must contribute, on average, an additional 15.5 percent of the new employee's basic pay towards retirement. While FERS employees cost agencies more than CSRS employees, the total cost to the Government for both the CSRS and FERS is nearly equal. The portion of the CSRS costs not paid by individual agencies is borne by the General Fund of the U.S. Treasury.

Question. What is the current financial condition of the retirement system?

Answer. Pursuant to Public Law 95-595, the Office of Personnel Management is required to submit an annual report on the financial condition of the CSRDF. Attached is the most recent report, covering the fiscal year ending September 30, 1992 (Attachment #2), which indicates that, while there is an unfunded liability, each year the Fund receives more in income than it pays out in benefits. On a cash flow basis, the Fund is financially sound.

Question. What is the unfunded liability?

Answer. The unfunded liability is the amount which, if deposited in the CSRDF, would fully finance the total CSRS and FERS retirement benefits for the current, closed group of employees and annuitants. It assumes the full normal cost of these benefits is contributed over the balance of the employees' working careers. There are two methods of calculating the unfunded liability:

- The dynamic unfunded liability recognizes the effect of future inflation in salaries and annuities (via COLA's). It is calculated in accordance with Public Law 95-595 and OMB and GAO standards. As of September 30, 1992, it stood at $599.7 billion.

- The statutory unfunded liability is calculated

using "static" economic assumptions which do not account for future salary inflation or COLA's. It is used to determine the unfunded liability interest payment (5 percent) due from Treasury at the end of each year, as required by the Civil Service Retirement Amendments of 1969. As of September 30, 1992, the statutory unfunded liability stood at $194.1 billion.

FEHB AND HEALTH CARE REFORM

Question. I note in your opening statement that OPM is a participant in the First Lady's Task Force studying health care reform. What role is OPM playing?

Answer. Several OPM employees were chosen to be members of selected working groups supporting the Task Force. These groups were responsible for analyzing data and developing health care reform policy options for presentation to the Task Force. One of the working groups on which OPM employees served considered possibilities for the administration of Federal health insurance programs, including the Federal Employees Health Benefits Program, within the general framework of reform.

Question. Many people have said that the Federal Employees Health Benefits Program could be used as an example for a possible national program. How do you feel about that observation?

Answer. There are components of the Federal Employees Health Benefits Program, for example, coverage without regard to health status or pre-existing conditions and the ability of employees to choose from among different health plans during an annual open season, which could be effectively utilized within a national program. However, the design of a national program would probably include elements not currently available within FEHB, such as a standard benefit package offered by all health plans.

Question. There are Federal employees who are concerned that any changes the Task Force proposes will cause changes in the current program. Their concerns center around the feeling that change will be made for change's sake. Do you have any reaction to that?

Answer. Although the Task Force has evaluated possible changes to the current program, it can be safely said that the process of developing policy proposals took into account any potential impact on Federal employees. The responsibilities of the Federal Government as an employer are always a primary consideration for us and will be addressed in our implementation of national health reform. As an employer, we are not interested in change for change's sake, but we do have a problem and so do our employees. FEHB costs are increasing rapidly, so,

like the Nation, we need to find ways to constrain them.

RECRUITING AND EXAMINING

Question. OPM administers entry level tests. Does OPM give authority to individual agencies to do testing?

Answer. Yes. OPM, upon request, allows agencies to administer written tests to job applicants. This is very common procedure for the clerical examination, but is also used for various law enforcement tests and the Administrative Careers With America (ACWA) examinations. The agencies normally conduct tests at their installations or during recruitment visits to educational institutions. OPM provides training to agency personnel and monitors test security. OPM also supplements agency testing through its extensive field testing organization--approximately 1,000, mainly part-time, test administrators nationwide.

Question. Do individual agencies get special hiring authority for certain categories? Do they use it? Are they satisfied with it?

Answer. OPM does grant direct-hire authorities for agencies to make immediate offers of employment to qualified applicants in shortage occupation situations. Direct-hire authorities are currently in effect for certain categories of engineers, scientists, mathematicians, accountants, and clerk-typists. The extent of these authorities varies (and fluctuates) according to the labor market situations in specific areas of the country at the time vacancies are being filled.

Agencies enthusiastically use these authorities and are reluctant to part with them.

However, in the case of OPM-granted direct-hire authorities, a March 1992, General Accounting Office report, Federal Hiring: Does Veterans' Preference Need Updating?, questioned whether veterans' preference was being given proper consideration in the process. OPM has since revised the direct-hire process to further ensure appropriate consideration of veterans and is monitoring their consideration on certificates. The current labor market and Government downsizing are also requiring OPM to cut back on some direct-hire authorities in certain areas.

Another special hiring authority is the Outstanding Scholar Program which may be used to fill positions covered by the ACWA examinations. Agencies may directly hire applicants with an undergraduate grade point average of 3.5 or higher and the applicants need not take any of the ACWA written tests. Technically, this is not an OPM-granted authority, but is a court-approved process stemming from the Luevano consent decree.

REDUCTION IN FORCE

Question. The Administration proposes to reduce the work force by 100,000 during the next four years. Every public indication has been that the reduction will be made by attrition. However, during a hearing we had last week we received an indication that a reduction in force would be necessary at this particular agency. Could you outline the RIF process? Who is affected? What are their rights?

Answer. An agency is required to use RIF procedures when it is necessary to separate or downgrade employees for the following reasons:

(1) reorganization;
(2) lack of work;
(3) shortage of funds;
(4) insufficient personnel ceiling;
(5) the exercise of certain reemployment or restoration rights; or
(6) furlough for more than 30 consecutive days, or more than 22 discontinuous workdays. (A short furlough of 30 or less consecutive days, or 22 or less discontinuous workdays, is covered under the adverse action procedures.)

In some cases an agency can avoid the need for a RIF by exercising its right to reassign an employee to a vacant position at the same grade or pay, regardless of where the position is located.

LEGAL BASIS

OPM's RIF regulations are derived from the Veterans' Preference Act of 1944, which is codified in sections 3501-3503 of title 5, United States Code. OPM implements the law through (1) regulations published in Part 351 of Title 5, Code of Federal Regulations; and (2) instructions in Federal Personnel Manual (FPM) Supplement 351-1.

APPLYING THE RIF REGULATIONS

1. COMPETITIVE AREA

The competitive area sets the limits within which employees compete for retention, and is always defined by the agency on the basis of (1) organization; and (2) geography. All employees within the organizational unit and geographical location are included in the competitive area. OPM's standard for a minimum competitive area is an organization in a local commuting area that is separate from other organizations because of differences in: (1) operation; (2) work functions; (3) staff; and (4) personnel management authority (i.e., the authority to take or direct personnel actions such as establishing

positions, abolishing positions, assigning duties, etc.). The fact that several activities may be serviced by the same personnel office does not, by itself, require that they be placed in the same competitive area. Also, an agency may establish a competitive area larger than the minimum standard.

2. COMPETITIVE LEVEL

Within each competitive area, the agency groups interchangeable positions into competitive levels based upon similarity of: (1) grade; (2) series; (3) qualifications; (4) duties; and (5) working conditions.

Competitive and excepted service positions are never placed in the same competitive level. Separate competitive levels are then established for positions that are: (1) full-time; (2) part-time; (3) intermittent; (4) seasonal; (5) on-call; (6) filled by a supervisor or manager; or (7) filled as part of a formally designated trainee or developmental program.

The competitive level is based on each employee's position description, not on the employee's personal qualifications.

Two positions that are similar (e.g., same grade, series, work schedule, etc.), but are not identical, may be placed in the same competitive level if the position descriptions show that each employee would need less than 90 days to learn to perform the key tasks of the other position.

3. RETENTION REGISTER

After grouping interchangeable positions into competitive levels, the agency applies the four retention factors in establishing separate retention registers for each competitive level that may be involved in the reduction in force. In practice, the terms "competitive level" and "retention register" generally have the same meaning and refer to the competitive level after an employee's retention standing is determined.

The name of each employee is listed on the retention register in the order of his or her retention standing (i.e., the employee with the highest standing is at the top of the register and the employee with the lowest standing is at the bottom of the register). The retention register includes the name of each employee who:

(1) holds a position in the competitive level;
(2) holds another position because of a temporary promotion from the competitive level; or
(3) is detailed from the competitive level.

The four retention factors are then considered in this manner:

(1) Tenure. Competitive service employees are ranked on a retention register in three groups according to their types of appointment:

Group I - Career employees who are not serving on probation.

Group II - Career employees who are serving a probationary period, and career-conditional employees.

Group III - Employees serving under term and similar non-status appointments. (An employee serving under a temporary appointment in the competitive service is not a competing employee under OPM's RIF regulations and is not listed on the retention register.)

(2) Veterans Preference. Each of these groups is divided into three subgroups reflecting their entitlement to veterans preference for retention purposes:

Subgroup AD - Veterans with a compensable service-connected disability of 30 percent or more.

Subgroup A - Veterans not included in subgroup AD.

Subgroup B - Nonveterans.

- By law (i.e., the Dual Compensation Act of 1964, as codified in section 3501(a) of title 5, United States Code), a retired member of a uniformed service is generally considered to be a veteran for RIF purposes only if the employee's uniformed services retirement is directly based upon a combat-incurred disability or injury.

(3) Length of Service. Employees are ranked by service dates within each subgroup (i.e., the employee with the most service is listed at the top of the subgroup, the employee with the least service at the bottom of the subgroup). The service includes creditable civilian and military service, and additional service credit for certain performance ratings.

(4) Performance. Employees receive extra RIF service credit for performance based upon the average of their last three annual performance ratings of record received during the 4-year period prior to the date the agency issues specific RIF notices, or the date the agency freezes ratings before issuing RIF notices. The amount of extra credit is: (1) 20 additional years for an "Outstanding" rating; (2) 16 additional years for an "Exceeds Fully Successful" rating; and (3) 12 additional years for a "Fully Successful" rating. No additional service credit is given for performance ratings below

"Fully Successful."

An employee is given additional service credit based on the mathematical average (rounded in the case of a fraction to the next whole number) of the value of the employee's last three annual ratings. If an employee received more than three ratings during the 4-year period, the three most recent annual ratings are used. If an employee received fewer than three annual ratings during the 4-year period, credit is given for an assumed rating of "Fully Successful" to bring the employee's ratings up to three, regardless of the employee's actual length of service.

- For example, an employee with 2 years of Federal service has one annual rating of "Outstanding" (20) and one of "Exceeds Fully Successful" (16). The employee would receive additional RIF service credit based upon the two actual ratings plus one assumed rating of "Fully Successful" (12), or 20+16+12 = 48, divided by 3 = 16 years of RIF credit for performance.

4. RELEASE

Employees are released from the retention register in the inverse order of their retention standing (i.e., the employee with the lowest standing is the first individual reached for a RIF action).

5. ASSIGNMENT RIGHTS

Competitive service employees in Groups I or II with current performance ratings of at least "Minimally Successful" who are reached for release for the competitive level are entitled to an offer of assignment if they have "bump" or "retreat" rights to an available position in the same competitive area, and they would otherwise be separated by reduction in force. The existence of an "available position" does not oblige an agency to offer an employee a particular position; however, it does establish the employee's right to be offered a position at the same grade as the available position.

An Available Position must: (1) last at least 3 months; (2) be in the competitive service; (3) be one the released employee qualifies for; (4) have a pay rate which requires no reduction, or the least possible reduction, in the employee's present grade (However, an available position may not have a higher grade than the employee's present position.); (5) have the same type of work schedule (i.e., full-time, part-time, seasonal, intermittent, on-call) as the employee's present position; (6) be within three grades (or grade-intervals) of the employee's present position ("Grade-Intervals" are discussed below); and (7) be held by an employee (i) in a lower retention subgroup who is subject to BUMP rights,

or (ii) in the same subgroup, but with less service, and who holds a position which the employee formerly occupied on a permanent basis (or an essentially identical position) that is subject to RETREAT rights.

An employee with an excepted service appointment has no assignment rights under OPM's RIF regulations. However, an agency may elect to establish its own system of RIF assignment rights for its excepted employees.

Bump. Bumping means displacing an employee in a lower tenure group, or in a lower subgroup within the released employee's own tenure group. Although the released employee must be qualified for the position, it may be a position that he or she has never held.

Retreat. Retreating means displacing an employee with less service within the released employee's own tenure group and subgroup. The position may be up to five grades (or grade-intervals) lower than the position held by the released employee if he or she is a disabled veteran in Subgroup AD. The position must also be the same position or essentially identical to a position held by the released employee in any Federal agency on a permanent basis.

- An employee with a current annual performance rating of "Minimally Successful" only has retreat rights to positions held by employees with the same or lower ratings.

Grade Intervals. The grade limits of an employee's assignment rights are determined by the position the employee holds at the time of the RIF, regardless of how the employee progressed to the position. For example, an employee released from a GS-11 position that progresses GS-5-7-9-11 has bump and retreat rights to positions at GS-5. An employee released from a GS-9 position that progresses GS-6-7-8-9 has bump and retreat rights to positions at GS-6.

Vacant Positions. An agency is not required to offer vacant positions in a RIF, but may choose to fill all, some, or none of them. When an agency chooses to fill a vacancy with an employee reached for a RIF action, it must follow subgroup retention standing. An employee's RIF assignment right is met if the agency offers the employee a vacant position at the grade to which he or she has bump or retreat rights.

6. RIF NOTICES

An agency must give each employee at least 60 days specific written notice before he or she is reached for a RIF action. Employees in the Department of Defense are entitled to 120 days specific written notice in a significant RIF. If faced with an unexpected situation, the

agency may, with OPM approval, give the employee a specific RIF notice of less than 60 days or 120 days, as appropriate, but at least 30 days, before the effective date of the RIF.

7. RIF APPEALS AND GRIEVANCES

An employee who has been separated, downgraded, or furloughed for more than 30 days by RIF has the right to appeal to the Merit Systems Protection Board (MSPB) if he or she believes the agency did not properly follow the RIF regulations. The appeal must be filed during the 20-day period beginning the day after the effective date of the RIF action. An employee in a bargaining unit covered by a negotiated grievance procedure that does not exclude RIF must use the negotiated grievance procedure and may not appeal the RIF action to MSPB unless the employee alleges the action was based upon discrimination. The time limits for filing a grievance under a negotiated grievance procedure are set forth in the collective bargaining agreement.

8. TRANSFER OF FUNCTION

A transfer of function takes place when a function ceases in one competitive area and moves to one or more other competitive areas that do not perform the function at the time of transfer. A transfer of function also takes place when the entire competitive area moves to another local commuting area and is not merged with another competitive area that performs the function at the time of transfer. The gaining competitive area may be in the same or a different agency. An employee who is identified with the transferring function has the right to transfer only if faced with separation or downgrading in the competitive area that is losing the function.

Question. How long does the process take?

Answer. An agency is required to issue a specific RIF notice to an employee at least 60 days before the effective date of the RIF. Employees in the Department of Defense are entitled to 120 days specific written notice in a significant RIF. However, before issuing a RIF notice, the agency must first determine each employee's retention rights in accordance with OPM's RIF regulations. This requires additional time, with a longer lead time required as the number of employees affected by a RIF increases. The lead time can also be increased by the need for an agency to engage in collective bargaining with union representatives at an installation. However, in many cases agencies are able to undertake RIF avoidance strategies during the same time frame to lessen or even eliminate the need to carry out a RIF.

Most small or medium size RIF's require 60 to 90 days preparation before notices are issued. A larger RIF

(such as the 1991 RIF conducted by the Mare Island Naval Shipyard in which 400 employees were separated) requires more than 90 days preparation.

Finally the time frame for a RIF, when a RIF is actually conducted, also includes the post-RIF period in which the agency may find it necessary to respond to appeals or grievances from employees, to undertake placement programs, and to administer other items such as saved grade and pay.

Question. What is the impact on the agency?

Answer. On the plus side, a RIF can bring an agency within its budget or allow it to carry out organizational changes, such as the addition or elimination or an organization, or to adapt to a new technology.

On the minus side, the financial costs of a RIF may outweigh immediate savings. An agency does not generally achieve maximum savings from a RIF until at least 2 fiscal years have passed, since employees downgraded by RIF are usually entitled to grade retention for two years following the RIF. During the same time period, separated employees are entitled to severance pay, unemployment compensation, and payment for unused annual leave, all of which are paid by the agency. Even after 2 years, expected savings may be diminished, because downgraded employees are still entitled to permanent pay retention that often approximates the employee's former actual salary.

Another negative impact is on productivity. For every employee in a RIF there is probably another who was downgraded and there may be someone who was reassigned. (The number of employees affected was even greater before procedural changes in 1986.) Employees who are moved from one position to another in the RIF process will usually require 90 days orientation in their new positions and closer supervision.

For an extended period, beginning with the first rumors of a major RIF until long after it is over, morale in an agency can be devastated. Employees spend much of their time thinking and talking about what might (or did) happen to them. Productivity declines.

There are lingering concerns that, because of the heavy value given veterans' preference and seniority as retention factors, RIF's impact disproportionately on women and minorities.

Question. What is the cost when a RIF is instituted? Who bears that cost? Is a RIF a cost-effective approach to get the numbers down?

Answer. The cost of running a RIF is variable,

subject to factors such as (1) whether the agency's goal is to reduce the workforce in order to achieve budgetary savings, or to carry out the work differently, (2) the grades of employees affected by RIF actions, and (3) what types of RIF alternatives are offered by the agency (e.g, job fairs, severance incentives to employees to voluntarily leave the agency to avoid a RIF, relocation expenses, etc.). In any case, the agency that conducts the RIF is responsible for the costs of running the RIF. Secondary RIF costs (such as the cost of voluntary early retirement and outplacement services provided by a State unemployment service) would not be borne by the agency.

There is no standard cost model to evaluate RIF costs, partly because agencies disagree on what constitutes a RIF cost (e.g., should the cost of processing RIF actions by the personnel office be considered a RIF cost or is this simply a standard personnel function?). However, the General Accounting Office (GAO) addressed RIF costs in a 1985 report, "Reduction in Force Can Sometimes Be More Costly To Agencies Than Attrition and Furlough," GAS/PEMD-85-6, July 24, 1985. In this report, GAO reviewed eight RIF actions conducted by agencies in 1982 and concluded that furlough and attrition are always preferable to RIF. As a result, GAO concluded that RIF was not an effective tool to handle personnel reductions.

However, GAO failed to consider (1) that furlough does not offer a solution when an agency plans to eliminate surplus organizations, change reporting relationships, or move to a different technology, and (2) that attrition may be desirable, but is not always achievable in a timely manner. To rely on GAO's recommended course of action (i.e., attrition and furlough) in these situations would not offer any positive remedy and may force the agency to make deeper cuts at a future date as the problems of staffing imbalances and/or funding shortages accumulate.

Using GAO's cost model and updating the final number into 1993 dollars, a RIF action costs $9,800 per affected employee. (This includes RIF actions resulting in the reassignment, downgrading, and separation of employees.) The GAO report is based on RIF actions affecting a broad grade range, and in agencies that offered minimal outplacement assistance, and no relocation costs. As a result, a RIF conducted in 1993 would generally be assumed to have an actual cost greater than $9,800 per affected employee.

In a larger sense, a RIF costs an agency much more in terms of human capital. The typical employee removed in a RIF has 10 years of service, representing a substantial investment in training and valuable experience. When a RIF is necessary, it is more cost effective to encourage older workers, whose skills would soon be lost

to regular retirement, to take advantage of an "early out." That lets the agency have a much longer and higher return on its investment in younger workers. For that reason, OPM usually grants early out authority where jobs of younger workers can be saved.

[CLERK'S NOTE.--Due to their length, attachments 1 and 2 do not appear in the record but are retained in the subcommittee's files and are available for review.]

QUESTIONS SUBMITTED BY SENATOR D'AMATO

PAY FREEZE AND MORALE

Question. In recent years, Federal employees have made important gains to address the salary gap between private and public sector employees. However, the President's proposal to implement a freeze on Federal employees' pay, along with other aspects of the President's budget, will severely impact this group of middle class Americans. In fact, they may be hit twice as hard as most Americans, first with tax increases, and second with salary sacrifices. As I have heard from numerous Federal employees, why does the Federal Government appear to be trying to balance the budget on the backs of the civil service?

Answer. We can certainly understand that Federal employees may be disappointed and upset by the President's proposal to freeze pay rates in FY 1994 and reduce the amount of scheduled pay increases in subsequent years. However, these proposals form part of an overall deficit reduction plan that affects many segments of the economy and requires sacrifice on the part of many people. Since Federal employees are paid with public funds, it is appropriate that we should set an example for the rest of the country by making an early and meaningful contribution to the deficit reduction effort. While the deficit certainly is not the fault of Federal employees, our ability to provide for pay increases in the future is dependent on reducing the deficit.

Question. In your written testimony, you state that "it is paramount that steps be taken to recruit and retain a qualified Federal workforce." While I certainly agree with you, it is my belief that that task will prove difficult with the implementation of the President's pay proposals. Federal employees and potential recruits are growing more wary about public service with the knowledge that their pay status is not stable and can be subject to change. What do you intend to do to achieve your stated goal cognizant of the Federal employee pay issue?

Answer. The Federal Employees Pay Comparability Act of 1990 (FEPCA) has already had a positive impact on the

ability of the Federal Government to recruit and retain a qualified workforce. FEPCA provided for Governmentwide General Schedule increases of 4.2 and 3.7 percent in 1992 and 1993, respectively. In addition, an interim geographic adjustment of 8 percent was authorized beginning in 1991 for employees in three metropolitan areas where recruitment and retention problems had been most severe--New York, Los Angeles, and San Francisco. Special higher rates were established for law enforcement officers at grades GS-3 through GS-10 Governmentwide and at all grades in eight high-cost metropolitan areas. Other features of FEPCA have given Federal managers more flexibility to use bonuses and allowances on a case-by-case basis to attract and retain high-quality employees. We believe these recent pay increases and the new flexibilities authorized by FEPCA will ensure that the Federal Government will continue to be able to recruit and retain a qualified workforce.

TRAINING AND OUTREACH

Question. I am pleased to see an emphasis on the part of the OPM towards training programs for improving the skills and quality of the Federal workforce. These are issues in which I had shared an interest with former Director Newman. Can you elaborate as to what kind of training and outreach the OPM is now and will continue to be undertaking?

Answer. OPM has targeted its efforts in human resources development (HRD) policy to strengthen training and development programs throughout the Federal Government. In January 1992, OPM issued to the agencies a package of 20 Governmentwide initiatives that called for either legislation, regulations, policy guidance in the Federal Personnel Manual (FPM), or technical assistance. We believe these initiatives have widespread support throughout Government. As a result, we have published proposed regulations that would require agencies to: 1) make systematic training needs assessments at the organizational, occupational, and individual levels to align human resources development with agency missions and strategic business plans; and 2) establish systematic development programs for managers and supervisors similar to those for SES candidates.

OPM also is revising substantially FPM Chapters 410 and 412 to reflect new training policies, particularly in areas that will directly affect Federal agencies' abilities to meet increasing workforce skill requirements, such as retraining for occupational change, continuing technical and professional education, basic skills, systematic development of supervisors, managers, and executives, career development, and occupational career paths.

OPM has a number of initiatives to improve frontline employee skills and service to the public including: 1)

identifying needs and expectations of the public through analyses of existing studies and comparisons of those expectations with public service practices; 2) designing and developing an OPM nationwide frontline training curriculum; 3) developing a frontline service training strategy based on employee needs and generic skill requirements that all agencies can use as a model; and 4) conducting showcases on current best practices for frontline training.

Also, OPM works closely with agency officials, interagency work groups, training councils, Federal Executive Boards, and a myriad of groups to provide policy guidance and share information and resources. OPM has developed a systematic approach to exchange information and ideas to educate and inform the Federal community about best practices, innovations in technology, and available resources. The objective of these activities is to promote sharing of resources and cost-effective development and delivery of programs.

We have used and will continue to use a wide range of approaches to reach out to the Federal HRD community. These approaches include not only the normal events and publications, but also such things as an electronic bulletin board dedicated to Federal HRD called "HRD INFO" which includes information on policy issues, national HRD issues, and training courses and programs, and a preview facility where exemplary products and HRD technology applications to human resource development will be demonstrated. In addition, we are actively promoting the "skill center" concept which combines career counseling, skill assessment, and referral to training resources into an integrated process.

POSTAL SERVICE BENEFIT LIABILITY

Question. A few weeks ago, the Postmaster General appeared before this subcommittee disputing the claim that the Postal Service owes the Government back payments for health benefits and retirement COLA's. Could you please clarify this situation? Should the Postal Service comply, what would the OPM do with the payments?

Answer. The amounts of the proposed back payments are based on calculations originally produced by the Congressional Budget Office (CBO) and subsequently updated by the Office of Management and Budget. CBO's work was used to establish the Postal Service retirement and health insurance payments mandated in the Omnibus Reconciliation Acts of 1989 and 1990. The proposal in the FY 1994 Budget extends these Acts to their logical conclusion, which is to recapture the present value of all remaining contributions the Postal Service would have made had it assumed full liability for the employee benefit obligations it incurred since being reorganized in 1971.

OPM would deposit the proposed back payments into the Civil Service Retirement and Disability and Federal Employees Health Benefits Funds. Due to the operational nature of the funds, receipts are used to finance current retirement and health benefits for active and retired Federal and Postal employees and their survivors.

FEHB AND HEALTH CARE REFORM

Question. Another concern of Federal employees is their health benefits. For years, there has been talk that the Federal Employees Health Benefits Program was going to be revamped, but we are still waiting for progress on this front. Today, health care for all Americans is a primary concern. Due out shortly is the report of the Health Care Task Force; a report that is supposed to serve as the model for health care reform legislation. As the Congress approaches any health care reform measures, how will health care reform affect Federal employees? Has OPM had any input in the discussions of the Task Force to determine the treatment of Federal employees? Will Federal employees be covered under some sort of national plan? Will they maintain their current coverage or will that coverage be modified?

Answer. OPM employees participating in the working groups have been involved in the development of policy options for the Federal Employees Health Benefits Program, and these options have been presented to the Task Force. At this point, no decisions regarding specific changes to FEHB have been announced. However, the FEHB Program can be expected to conform to the general principles of the reform package.

SUBCOMMITTEE RECESS

Senator DECONCINI. The subcommittee will stand in recess until 10 a.m. on May 4 when the subcommittee will hear testimony from the Office of Management and Budget and the Executive Residence at the White House.

Thank you.

[Whereupon, at 10:44 a.m., Thursday, April 29, the subcommittee was recessed, to reconvene at 10:20 a.m., Tuesday, May 4.]

TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1994

TUESDAY, MAY 4, 1993

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:20 a.m., in room SD–116, Dirksen Senate Office Building, Hon. Dennis DeConcini (chairman) presiding.

Present: Senators DeConcini, Mikulski, Kerrey, and Hatfield.

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

STATEMENT OF LEON E. PANETTA, DIRECTOR

OPENING REMARKS

Senator DECONCINI. I want to thank Mr. Panetta for being a little bit late. I am a little bit late myself this morning; I apologize, and thank him. I hope it doesn't throw his schedule off too much.

We will begin this morning with the Office of Management and Budget, and we welcome a former Congressman and colleague, someone who has great credentials here and credibility with Members of the Congress.

Director Panetta, we are very, very pleased to have you here. I don't know what you have heard about how this committee has worked in the past with OMB Directors, but quite frankly, regardless of the political differences, we've had a good working relationship and we want to keep that and lay out the welcome mat for you. Please call us any time members of the committee, the staff, or myself when we may disagree. I assure you we will give you every opportunity to explain your needs and attempt to do what we can.

You have a tough job as the President's chief budget enforcer, and with your background I'm sure you know the disadvantages that go along with that job. So we welcome you here.

The fiscal year 1994 budget request for the Office of Management and Budget totals $53.481 million, and 526 FTE's. This amount reflects an increase of $500,000 above the fiscal year 1993 enacted level, and a reduction of eight FTE's. The largest increase I see in your budget is $1 million for continued implementation of your Budget and Financial Information Automation System, which is

offset by nonrecurring costs in this activity from fiscal year 1993. For the most part, your office budget is lean and mean, with only inflationary adjustments for most object classifications.

Your budget also appears to be in compliance with the Presidential Executive order on administrative personnel reductions. I compliment you for requesting a budget which reflects restraints, as I believe that OMB should attempt to set an example for the rest of the country.

Director Panetta, you may summarize your opening statement, and if you want any staff to sit with you, you are welcome to call them up, either now or later.

Before I yield to you, Mr. Director, let me advise that the ranking member, Senator Bond, is on the floor right now with an amendment and has asked us to proceed.

I will yield to the Senator from Maryland for any opening statement she cares to make.

STATEMENT OF SENATOR MIKULSKI

Senator MIKULSKI. Thank you very much, Mr. Chairman.

Of course, I welcome you, Mr. Panetta, to this hearing, recalling with fondness the fact that you and I were elected to the House of Representatives together, and probably no other Budget Director since we've had an OMB Director has come with such preparedness, understanding the Federal budget and also understanding the way the Congress works or doesn't work. You come with a great background and with a great sense of purpose.

We look forward to working with you on these difficult issues of balancing both the budget and the needs of the American people. The boldness with which you and the President have undertaken a Federal budget to both generate jobs and at the same time reduce the Federal deficit has indeed been impressive, and I am generally supportive of it.

As the Senator from Maryland, I must bring to your attention one of the really prickly aspects that we're facing, and that's what the Clinton budget has done to Federal employees. Every single Federal employee has been willing to step up to the plate and take a 1-year pay freeze. What disturbs them, however, is the fact that over the years ahead, they will be needlessly disadvantaged. A great concern, of course, is the 10-percent cut in survivor's benefit.

Federal employees came to work for the Federal Government, one, with a sense of higher purpose; and second, with sacrifices in pay in many fields, with the understanding that at the end of their service there would be an adequate retirement, and then many of them elected a particular approach to the issues of survivor's benefits.

Their concern is that survivor's benefits will take a 10-percent cut, and at the same time, the administration looks like it is cutting deals with the whole issue of grazing fees and mining. I'm not going to get into it, but it's very hard for me to explain to my constituents why, when they elected a survivor's benefit in 1972, we are now going to cut deals over mineral rights with those privileges that haven't changed since 1872. And for many of the people in the survivor's benefit category, these are elderly women who have

worked primarily in the home and not the marketplace, and at this stage of life there is no other recourse for them.

I intend to ask you questions along those lines, but we would hope, No. 1, that when you look at what is happening to Federal employees, we need to look at how we are going to attract the best and the brightest to the Federal Government as we do come up with a more entrepreneurial Government. And No. 2, that we keep the social contract with the Federal employees, particularly in the areas of retirement and survivor's benefit.

We look forward to further discussions on you with this.

Mr. Chairman, that wraps up my comments.

PREPARED STATEMENT

Senator DECONCINI. Thank you, Senator Mikulski. We have your prepared statement and it will be made part of the record.

[The statement follows:]

STATEMENT OF SENATOR MIKULSKI

Thank you, Mr. Chairman. Director Panetta, it is good to see you here today. We know you have been hard at work with our new President helping him implement his program of change for our country.

This new Administration has been in office now just over 100 days, and they have been days jam-packed with action and activity. We've really had our hands full. President Clinton has embarked upon a very ambitious agenda, of trying to generate jobs and opportunity, cut the deficit, bring about world peace and reform health insurance. And some people are cranky that he hasn't done all of those things yet.

In these 100 days, I have been out and about among my own constituents in Maryland, to see what they think of this new President. Whether it's in the diners in Baltimore, an African-American church in Prince George's County, whether it's the watermen over on the Eastern Shore, or shopping in the malls along Rockville Pike, I hear a consistent theme that they like this President. And what is it they like about him? They like the fact that he is an activist President. They know that when he gets up every day, he is concerned about their day-to-day needs and the long-range needs of this country. They like that he is worried about the United States of America, generating jobs, reforming health insurance, and giving help to those who practice self-help.

So I want to work with you, Director Panetta, to help this new President change our country and help our people. And in my questions, when I talk about some aspects of the President's program that affect my constituency especially hard, know that I am not nitpicking or fussbudgeting or playing the gridlock game. Where I have disagreements with the Administration, I will raise them constructively and work with you to identify responsible alternatives.

That's what I am working on now, with respect to our dedicated Federal work force. I believe the Administration's budget proposals go much too far in reducing pay and benefits for Federal employees.

We violate our social contract with Federal retirees when we propose to reduce the benefit to their survivors, after they have voluntarily cut their own annuities to provide these benefits. In many cases, these survivors are elderly women who have never worked in the market place themselves, and have little in the way of other pensions or social security benefits to live on. Not only that, but many of these people planned for years to receive this money, and now have no capacity to recover for actions recommended by this Administration which threaten their security.

Also, we demoralize our work force and hurt this Administration's chances of attracting a new generation of the "best and brightest" to government when we propose to delay further locality pay adjustments that have been promised for many years, and adopt a five-year plan which will leave Federal pay permanently lagging behind inflation.

Federal employees are willing to do their share to help reduce the deficit, but this package would make them bear far more than their fair share of the pain. I know that hitting our work force is an easy cut, but we must not just go for what is easy; we must also ask, "Is this fair?"

I look forward to Mr. Panetta's responses to the questions today on this and other subjects, and I thank you for being here with us.

SURVIVOR'S BENEFITS

Senator DECONCINI. I want to reiterate, Mr. Panetta, the strong feelings about survivor's benefits. I don't understand the rationale; at least as the Senator raised it here, the cost to the Government employee is not reduced, but the ultimate survivor's benefit is cut by 10 percent. I just can't imagine that the Congress or the administration wants to do that without also showing a reduction in what it's going to cost to put into it.

If this committee has anything to say about it, and we may, I hope we can restore that. But I would like to see the administration address it, quite frankly, before we get to our appropriations.

I am pleased to yield to the Senator from Nebraska for any opening statement.

STATEMENT OF SENATOR KERREY

Senator KERREY. Thank you, Mr. Chairman.

I look forward to getting into some questions. I will just say very briefly that one of the things I think is very important to declare is that the Clinton administration has come into office in 1993 inheriting a tremendous number of problems, not the least of which is that all the way through the 1980's we were led by people who were quite willing to continue borrowing huge amounts of money, and unwilling to face facts, that the deficit was an economic problem and a political—small "p"—political problem, in that people are just losing confidence in our ability to govern ourselves as a consequence of not being able to address that problem.

So I am very grateful and proud of President Clinton and you, Mr. Panetta, for coming to the American people and telling them the truth. I think that in the State of the Union Address the American people breathed a sigh of relief and were extremely enthusiastic, because the President stood before the American people and said, "We're not going to recognize this country unless we address this deficit."

Furthermore, he went on to declare that health care is the No. 1 problem. In the line of questioning I would like to talk to you a little bit about that. With all the spending in health care, this year to next, we will have a $34 billion increase. We had a conference in Nebraska where I was pleased that the First Lady, Hillary Clinton, attended and spoke, a very impressive speech to the audience. But I also heard many industry people get up and say, "The problem is that the Federal Government is not spending enough money." They were saying, essentially, that if we just spent some more on Medicare and Medicaid, the problem would be OK.

Well, we're going to go from $200 billion this year to $400 billion in about 5 years on just those two programs. It seems to me, and I believe it very strongly, that unless in this year we develop some kind of a mechanism that says to the American people first of all, "Here's how much money we're spending, folks"—I hear a lot of my colleagues on the Republican side say, "We don't want a big Government takeover of health care." Well, $318 billion next year is pretty big Government. And with $145 billion in State and local ex-

penditure, and only about $220 billion being paid by the insurance industry, and 80 percent of all health care expenditures now being third party, I think you could hardly describe this as a market.

Second, I think it is important that we immediately get into the discussion about which taxes we are going to use, rather than simply saying, "No, we're not going to use taxes to pay for health care." You know better than anybody, Mr. Panetta, that at some point we've got to pay the bills.

Last, I think we need to say to the American people that we are going to create some fiscal discipline on health care. I am troubled by caps on entitlements. I voted for it this year. I had finally reached my limit with providers that are saying to me, "If you just pay me more money, I'd be able to take care of the problem," and then they would go back home and kick Congress and the President around for spending too much money. The very people, the very so-called conservative people that say that the problem is that the Federal Government can't get its house under control and is spending too much money, will come here and say, "Don't do anything about Medicaid and Medicare unless you're willing to put more money into the system."

I really think it's at the heart of our capacity to be able to invest money in education and transportation and those things that will create jobs that get lousy economic news—at the heart of our ability to be able to create jobs and do something to create some hope for the American people, is to get the Federal spending for health care somehow under control.

Mr. Chairman, I look forward to the opportunity to talk to Director Panetta about that.

Senator DECONCINI. Mr. Panetta, we never give anything away at this committee, but I would be glad to have somebody get you a cup of coffee, if you would like one.

Mr. PANETTA. No; a glass of water is fine.

Senator DECONCINI. Go ahead, Mr. Panetta.

STATEMENT OF LEON E. PANETTA

Mr. PANETTA. Thank you very much, Senator. What I would like to do is have my statement made part of the record, and if I could summarize it?

Senator DECONCINI. Please do.

Mr. PANETTA. I want to thank you and Senator Mikulski and Senator Kerrey for your kindness in welcoming me here. This is my first appearance before this committee, and I hope that it is the beginning of a cooperative relationship. I have a great deal of respect for you and for each of the Senators with regard to the issues that they spoke to, and also their own records and your record, particularly with regard to trying to make Government more efficient.

I need your help and I need your guidance and I need your support as I try to implement my responsibilities.

I was always familiar with the budget side of this job, but I wasn't quite familiar with all the other aspects that this job encompasses. It is huge and it is a large responsibility. For that reason, I can't do it alone. I really do need to have the support of both the House and the Senate, particularly the committees that oversee the Office of Management and Budget.

So I look forward to a good working relationship with you and I thank you for the support that you have given the office.

Let me just make a few comments, basically with regard to the budget itself.

Obviously, since we have to go into the budget and tell every other agency and every other department what they have to do in terms of the tight budget and the various reductions that have to be made across the board, we think that OMB has to set, really, a role model for the other agencies and the other departments. For that reason, our request here is a modest one. We are basically asking for less than a 1-percent increase, roughly about $500,000. Obviously, if you look at the baseline and where we should be headed if we were just going to do it on inflation, we're about $1.9 million below the baseline. So it's basically a very modest approach. I specifically asked that we do that because, particularly in a year where we are asking every other agency and every other department to roll up their sleeves and tighten up their operations, I think OMB has to be the role model for the others.

On FTE's, we are going to be going down. We are at 534 now, and we expect to go down another 8 positions, so that will be 8 below our 1993 level. Overall, we will be about 27 positions below the level for fiscal year 1992, and we will be completely in accordance with the President's Executive order with regard to FTE reductions. We will have a total of 22 FTE reductions below the fiscal year 1993 funded level between 1993 and 1995, and that's essentially what the request is for under the Executive order.

Again, our key is to try to do what we can to improve integrity and efficiency in the way the operation runs. The basic focus of the increases really relates to the automation and the computer side of OMB. We do a tremendous amount of work, obviously, with our computers in order to try to determine accurately the numbers and the background. I have to tell you that I really do respect the people who work at OMB. There are a lot of very good, professional people who work there. They are very capable. The work that they have to do in terms of trying to figure out the numbers, almost on an expedited fashion these days—anytime we have a request, we have to get immediate numbers available to the President—it's essential that we keep moving forward with this automated data processing system.

My predecessor basically put in a 5-year plan for that process. We are now pretty much in the fifth year, so the amount that I've asked for here is basically to wrap up that fifth year of that process.

Obviously, we are also asking for some additional moneys to try to help on our computer systems overall for the purchase of hardware.

So those are really the requests. As I said, I think it's a modest request, but it will help us tremendously in terms of our ability to try to respond to the budget challenges that face us.

The one thing I've found in this business is that no matter what numbers we present, the numbers always manage to change from day to day, whether they are Treasury numbers, whether they are computing the costs of various programs. We absolutely have to stay on top of those changes because we can't really provide the

kind of policy guidance we need to provide you and the other Members of the Senate and the House unless we have the best numbers available. In a changing economy, and in one this large, particularly with regard to Government, it's not always easy to do.

So that's probably the one aspect of OMB that I think has to be improved.

I might mention something else. Just for your own information, we are also improving our management side at OMB. When I came into this job, I was very concerned that we had almost lost the "M" at OMB, that not very much attention was paid to the management side of the responsibilities of this department. There was basically a large focus on budget, but not very much on management.

I am a big believer that we have to do much more in terms of improving the efficiency of management on the Government side. I now have a deputy-designate, Phil Lader, who is in charge of management. We are working with the Vice President on the National Review, looking at Government from top to bottom and determining how we can improve the efficiency of Government.

We are also doing much more on the management side in terms of establishing a process for reviewing regulations. We are not relying on the Competitiveness Council. We're going to do this straight, under OIRA, which is the main agency operating regulatory reforms.

We are also looking at procurement. I have to tell you that we are also looking at contracting out so that we can improve that operation. There are a number of areas that we are looking into on the management side that I think are extremely important in terms of our ability, really, to develop budgets.

I can't—and I don't think you can—tell the American people what we're spending in Government unless we can improve the way the Government provides services to people. Frankly, we've done a lousy job at that. We need to do a better job. That's one of the areas that I am focusing on in my operation. I just want to alert you to that.

PREPARED STATEMENT

Senator DECONCINI. Thank you, Mr. Panetta. We have your complete statement and it will be made part of the record.

[The statement follows:]

STATEMENT OF LEON E. PANETTA

Mr. Chairman, Senator Bond, and Members of the Subcommittee, I appreciate your inviting me here today to present the fiscal year 1994 budget request of the Office of Management and Budget. This is, of course, the first time I have had the opportunity to appear before you in this capacity. I look forward to working with you this year and in the future as we seek to provide the resources needed for OMB to do its job effectively, while making sure that we don't ask for, and you don't provide, money that is not necessary.

As Chairman of the House Budget Committee, I took very seriously the role of OMB as the President's budget agency and the agency responsible for improving management throughout government. When it comes to our own budget and our own internal management, OMB, more than any other agency, ought to be a role model for the other departments and agencies. I intend to ensure that it is, and I think this budget request is consistent with that goal.

The President's request proposes budget authority of $53,481,000. This proposal provides for an increase of $500,000 or less than one percent over the fiscal year 1993 enacted level, and it is $1.9 million below baseline.

The requested funding level would enable OMB to fund 526 full time equivalent (FTE) positions. This FTE level is eight positions below the level for fiscal year 1993 and twenty-seven positions (5 percent) below the level for fiscal year 1992.

This request is fully consistent with the President's executive orders which require executive agencies to reduce staffing and to reduce administrative costs. OMB is required to reduce its number of FTEs by a total of 22 below the fiscal year 1993 funded level during fiscal years 1993–1995, and this request meets those goals. The reduction in administrative costs will result in funds in this category being reduced from $6,831,000 in fiscal year 1993 to $6,503,000 in fiscal year 1997.

President Clinton is committed to making government work better for the American people. OMB's fiscal year 1994 budget request would permit OMB to fund current operations and make progress in carrying out government-wide management improvements. In fiscal year 1994, OMB will continue as an active participant in the President's effort to redesign government and make it more effective and less costly. With government expenditures exceeding $1.5 trillion, it is essential that we be committed to providing integrity and efficiency in Federal programs.

The Office of Management and Budget is dependent on modern information systems in order to function effectively. Information systems are used to analyze and produce the President's Budget, to communicate with other agencies and the Congress, and to coordinate operations among OMB's own offices. These systems are also used to manage the thousands of documents that are processed every year, ranging from legislative proposals and regulations to public and Congressional inquiries and apportionment requests.

The fiscal year 1994 request will allow OMB to complete the Automated Data Processing (ADP) systems improvement projects, which began in fiscal year 1990. The funding level for the ADP systems projects is $1,060,000, a reduction of $245,000 from the fiscal year 1993 level. The reduction in ADP systems projects is consistent with implementing the fifth year of the five-year ADP systems improvement program that the Appropriations Committees have approved to date for fiscal years 1990–1994. The five year plan is designed to integrate and modernize existing systems, some of which are over twenty-five years old.

In addition, $618,000 is included in the fiscal year 1994 request in order to maintain and protect the investments we have made in our computer systems. These funds will provide for the replacement or upgrading of the oldest personal computers, more efficient software, and the necessary maintenance and upgrading of electronic network components.

The modest funding requested for OMB would enable us to meet our responsibilities to help control unnecessary Federal spending, to ensure that the investment spending proposed by President Clinton is used efficiently, and to improve the management of government.

Thank you for the opportunity to discuss the OMB budget request. Again, I look forward to working with the Subcommittee, and I would be happy to address any questions you may have on either the OMB budget or larger budgetary issues for which OMB is responsible.

OMB ROLE IN REVIEWING REGULATIONS

Senator DECONCINI. Mr. Director, I think that's very encouraging, that you're looking at the management side. I have felt for a long time—quite frankly and I got a feeling from past Directors that they were absolutely overwhelmed on the budget side and didn't feel they could devote the time and the staff.

Do you have the capabilities to review regulations on a timely basis and present back to those who are asking, without months and months and months of time?

Mr. PANETTA. We are now in a process of reviewing the regulatory process and coming up with a procedure to try to expedite how we review regulations.

Senator DECONCINI. When will you have that available?

Mr. PANETTA. We hope to have that, frankly, within the next few weeks. It's gone through the process and we are now making some final changes on it.

But we have had a real problem where regulations have been backlogged for months, sometimes, in that process.

Senator DECONCINI. I know.

Mr. PANETTA. What we are trying to do is develop an expedited way of dealing with it. We want to review them; we want to make sure that they are cost effective; but at the same time, we want to make sure that they don't get trapped in the bureaucracy and to try to keep the process moving.

That's something that the President directed we should do, and we're in the process of doing it.

BUDGETARY TREATMENT OF PURCHASING FEDERAL BUILDINGS

Senator DECONCINI. As you know, Director Panetta, this committee has the authority for appropriating moneys for Federal buildings. The 1990 budget agreement changes the scoring rules for budgetary purposes with respect to acquisition of Federal buildings through lease/purchase or capital lease arrangements. Those scorekeeping rules, which became effective in 1992, require that all the budget authority be scored up front, with the Government's total obligation in the year in which a lease/purchase or a capital lease is authorized or entered into. Outlays are scored over the life of the project as obligations occur.

I know you are familiar with the issue, Mr. Panetta, and I just want to discuss it with you.

Essentially, what has happened is that the Congress has not authorized any lease/purchase or capital lease arrangements for Federal building acquisition because we just don't have the money to put up front to cover the cost of these projects. In some cases, lease/purchases or capital leases make much more sense than direct Federal construction, particularly if—say, in the case of border facilities, a State or local government wants to put up the money to construct the facility and not wait until the Government has the money, and is even willing to do it with no profit. In addition, in certain markets, buildings may be currently available to the Federal Government for office space use, and it would make more sense for the Government to enter into a long-term lease.

I am very cognizant of the problem of the private sector being involved here, only because today's 10 percent return on a real estate investment—and 16 percent 2 years from now—may be contradictory and publicly embarrassing. But for a governmental entity that would like to do it, say one of the counties or the State along the border of Canada or Mexico, to put up the funds through their bonding authority, lease to the Government with no profit but to recapture their bonds, there is no incentive to do that. Instead of borrowing money and paying it back, like we do on a mortgage on a house, we are really prevented from doing that.

First of all, why shouldn't the Federal Government operate in more of a capital investment purpose?

I have legislation—Senator Bentsen and I were working on it last year, and I'll introduce it, probably with Mr. de la Garza—for border facilities, where they would only be available to quasi-business, nonprofit corporations, but GSA could at their discretion enter into a long-term lease without having to score it, which is a legislative thing in your area and that of the budget committees of changing the scoring rules.

I wonder if you can comment on it, or if you have some ideas, or if you're willing to work with us on some legislative solution here.

Mr. PANETTA. I am more than happy to work with you on this issue. I was part of the negotiations on the 1990 budget agreement and understand the reasons for that scorekeeping change.

Basically, it was designed in a way to try to reflect what the total cost of a building would be by moving it into 1 year so that you could provide budget authority for it in that year and not present a distorted view of what the costs might be over a long period of time. That was really the main purpose of it.

But it has produced some crazy anomalies, and you have just pointed out some of the problems when the private sector wants to come in and actually produce something less expensive to the Government and charge us less in terms of the lease arrangement. Under these rules, you almost have to prohibit that from happening, and that's wrong.

Senator DECONCINI. No incentive.

Mr. PANETTA. There is no incentive to do that.

So what I would like to do is try to work with you to try to deal with some of those anomalies.

I would like to present a picture—I think the public is entitled to know what the long-term costs of anything are so that they understand what we're getting involved in, but I also think we have to provide some flexibility here to deal with the kind of situation you pointed out.

WHITE HOUSE SUPPLEMENTAL REQUEST

Senator DECONCINI. Well, I will share with you our legislation when we have it, within the next 3 to 4 weeks, and I would welcome your comment. Of course, I would welcome supporting or altering it where we could at least try it on a temporary basis to see how it works. As long as the discretion is left with the GSA, it seems to me not something that they're just going to go jump at all the time, because they will have to answer questions here.

Turning to your supplemental, the administration has proposed $11.1 million supplemental for the White House, and the Vice President's office. When Patsy Thomasson was before this subcommittee we discussed at length the justification for the supplemental, and I think she did an excellent job explaining the urgent need.

The problem we have here is the offset. Ms. Thomasson stated that the offset was identified by OMB, and I don't think we ought to be taking $7 million from the IRS or $4 million from the new drug czar and hamstringing their ability to figure out what they need to run their offices.

Can you tell me if you looked anyplace else to secure offsets for these costs—unobligated balances, delays, projects from GSA or some other agencies? Is there another way to do it rather than taking it from where the request is? We would like to approve it, but I would like to have your comments on it.

Mr. PANETTA. Well, as always, we review as much as we can. It's never easy to find offsets, no matter where you look. It's a little bit like trying to look at the jobs bill and trying to find ways to pay

for it; it's never easy to do when you're trying to talk about rescissions or offsets. You are always going to be hurting somebody.

But in this instance we thought, particularly on the rent proposals at IRS, that they did have an excess and that we at least had the ability to use some of that money that would not relate to their enforcement side or the kinds of things that we were concerned about in terms of modernization, but really that this was an excess with regard to their rent liabilities.

On the drug czar, obviously, without having a drug czar in place, I was a little hesitant to try to use that area, although obviously there were some reductions that were in place there that were going on within the White House.

Based on your concerns, I am in the process of trying to determine whether there are other ways to try to implement that offset.

Senator DECONCINI. Well, we would like to have any suggestions you have. We may just go ahead and do it here, depending on the will of the committee, but——

Mr. PANETTA. I may give you a range of other options.

Senator DECONCINI [continuing]. Delayed projects in GSA, or sometimes unobligated funds, we know that game here that we always play. But we're not talking about a lot of money.

Last, along this line, the ONDCP was so drastically reduced by the administration, and now we have a new drug czar, which I think sounds very good to me. I believe that current staffing, below 52 or so, is going to be almost impossible. I have not talked to the nominee to the drug czar's office, but it seems to me that cutting it down to 25—did you have a chance to have some input on that? Or was that pretty well decided outside your shop?

Mr. PANETTA. It was pretty well decided.

Senator DECONCINI. That's what I thought, and that's good enough.

REFORMING THE USE OF GOLF COURSES ON MILITARY BASES

I will ask one more question and then proceed to yield.

On February 10, 1993, Mr. Panetta, the administration released an Executive order which proposed the reduction of many perks enjoyed by top officials in the executive branch. Although the President included restrictions on many of the well-known perks, and I congratulate him for that, he failed to mention the military golf courses.

As I am sure you are aware, I have introduced legislation which would open up those golf courses, but also give some privileges and preferences to retired military and active military. The Golf Digest and Mr. Darman, your predecessor, were very enthusiastic about it and indicated that there was a remuneration to the Government of somewhere between $70 and $100 million if you charge just the average fee that would be charged at municipal golf courses.

Did the administration consider a change in the use of military golf courses when drafting the order? If not, is that out of the question, from the administration's point of view?

Mr. PANETTA. No, not at all. As I think you can see, many of the elements that were in your legislation have been incorporated in the order. You have been an outstanding leader with regard to looking at perks in the executive branch and basically trying to

shape up the executive branch so that they, too, are abiding by the same kind of disciplines that we're trying to implement elsewhere.

A lot of that has been incorporated. I think the area you have just mentioned is an area that we need to look at. In addition, we want to be able to do it in a cooperative way with the Pentagon in terms of implementing that kind of approach.

I think it can be done. I also think that it is in line with everything else we're doing in the budget. In the budget we have basically taken the position that with regard to many Federal services, people ought to pay for those services. That's just a reality, that fees ought to be charged to cover those services. I think this is an example where, in fact, we can do the same thing.

Senator DECONCINI. Well, I would like to work with you on it. You will find a lot of resistance at the Pentagon and in the military.

Mr. PANETTA. Oh, I know.

Senator DECONCINI. It's not a popular subject. After you explain it to military retirees, that there would be some discount for them and even time preferences, and active military as well, most of these courses—not all of them; a few of them around here are heavily used—most of them do not have anywhere near 50 or 60 percent use. It just seems to me that the security problems could be overcome if those courses were opened for some hours to the public.

GUIDELINES FOR POLITICAL TRAVEL BY EXECUTIVE BRANCH OFFICIALS

In the Executive order of February 10, the administration restricted the Government's aircraft use—it addressed that. However, the order does not specifically deal with the issue of political travel and how it will be handled by this administration. In addition, an OMB Circular dated April 19 does not specifically address political travel.

Does the administration intend to change the procedures which were in effect under the Bush administration which authorized the use of Government aircraft and set up reimbursement procedures for political travel which, as you know, are just the cost of a first-class fare? And how will campaign-related or noncampaign-related travel be defined, and then handled?

Mr. PANETTA. We are currently looking at that issue and trying to develop appropriate guidelines to make sure that we can protect against any of the abuses that we've seen in the past with regard to political travel on military aircraft. So we are in the process of developing guidelines so that people will know exactly what they can and cannot do, and that if they do this, then reimbursement will be required.

Senator DECONCINI. The Order also does not outline how the President and the Vice President and their immediate families will be covered. Last year in this subcommittee hearing the former Director, Mr. Darman, discussed executive branch travel, and he referred me to a memorandum from former Counsel to the President Boyden Gray which outlined the guidelines for allocation of payment of travel expenses for senior administrative officials.

Does such a document exist under this administration? And if so, could you provide it to this subcommittee?

Mr. PANETTA. I'm not sure. Let me check that out and find out, but I'm not aware of it. It may well be. If it is, I'll provide it.

[The information follows:]

For the time being, the February 12, 1992, Boyden Gray memorandum is being used as guidance by the administration in handling of payment for political travel, pending review of the subject.

COSTS OF THE WHITE HOUSE COMPLEX

Senator DECONCINI. One of the big problems this committee has, and I think maybe you have—and I'm not critical of what we spend, I don't think because I don't know what it is—but nobody can tell this committee how much it costs to run the White House, from transportation to communication to food and beverages and what have you. We have part of that here under the Park Service. We have the upkeep of the grounds, and we have the personal appropriation for the President and the Vice President.

I would like to ask you if you could help us to put a handle on what it costs, from Defense and CIA and all the way down. I think it's important, because I have a sneaky feeling that a lot of it has been parceled out to other agencies over the years in an attempt to keep it from the public. I don't think we should be ashamed of saying that we spend so many million dollars to support the White House, and particularly the President and the Vice President, unless there are things there that are obviously ludicrous.

I would ask if you would help us put that together by assigning somebody on your staff who would attempt to put it together for us and with us.

Mr. PANETTA. I'd be happy to do that. I know you've made that request in the past and never got a full response to it.

Senator DECONCINI. We just haven't been able to get it.

I felt so many times that OMB kind of says, "Gee, I can't get into it," but it seems to me that you have authority to get into just about anything you want when it comes to cost, wherever it is. Some of it may be of a classified nature that we have to keep confidential.

The Senator from Maryland.

MODERNIZATION OF FDA FACILITIES

Senator MIKULSKI. Thank you very much, Mr. Chairman.

Mr. Director, the success of the Federal Government depends on its people, that they be up to date and motivated, as well as the facilities.

I want to talk a lot about Federal employees, but before I do, I want to talk about Federal facilities. I would like to thank your very able Deputy, Alice Rivlin, for resolving a longstanding conflict that existed over the modernization of FDA. She was extremely responsive.

You would be interested to know that at last year's hearing, I took a considerable amount of time trying to resolve the FDA situation, with the indulgence of the Chair. It actually involved a summit meeting with GSA. I must say, with one meeting with Alice Rivlin we were able to resolve the issues of great concern. I think it meets the President's objective of modernizing Federal facilities

so that they can do a better mission in terms of the linkages between NIH and FDA.

We thank you for that, and we also bring to your attention that one of the legacies of the previous administration was to delay modernization, and also to delay taking a look at the maintenance of key facilities. We believe that rather than going about this agency-by-agency—NIH, FDA, the need for a new IRS—that really there needs to be an agencywide strategy on the basis of OMB and the President, so that these are not left only to the advocacy of individual Senators. We bring to your attention that NIH needs to be modernized. Their laboratories in some places have not been updated. We are about to move IRS to Prince Georges County. And NIST, which is the old National Bureau of Standards, is key to the President's technology initiative.

Essentially, we are going at it one agency at a time rather than working at both the need for modernization, and then how they fit into an overall strategy. Many of these are technological and we don't want them to be pork or perk or whatever, or labeled as such. We are trying to get the facilities to be fit for duty to accomplish the policy objectives. So we bring that to your attention.

The other is that we support the President's initiative and the Vice President's task force on moving the Federal Government to be more entrepreneurial, to be performance-based, to be constituent- and customer-based, and so on. In order to do that, they need good morale, and they feel they've really gotten the sharp elbow from the administration.

PROPOSED REFORMS IN FEDERAL RETIREMENT AND SURVIVOR'S BENEFITS

Probably where this is felt the most keenly is in the issue of retirement and survivor's benefits. As you know, Federal employees could opt for taking a reduction in their annuity if they took care of their survivor.

I will tell you as a woman, as a feminist, as someone who has tried to change Federal employee personnel practices, where there were the good guys who actually thought enough of their spouses to sign up, now they're going to take a 10-percent reduction. These women are old. They did not work in the marketplace; that's a generational difference. They have no place to go. They have no Social Security. They have no recourse.

I wonder if your plans are to rethink the survivor's benefits issue.

Mr. PANETTA. Well, as you know, it's never easy when you are putting together the kind of plan we had to put together to deal with the overall deficit issue. When you're looking at $500 billion over 5 years in deficit reduction, it's just very tough, and there's no easy place to go. So we basically looked at all areas. We were obviously operating in a fairly tight timeframe. We were trying to put together the program within a 4-week period.

But we looked at all areas. We looked at defense. We looked at nondefense. We looked at entitlement areas. And obviously, we looked at Federal employees as well, as part of that process.

The President felt, and I think all of us felt, that it was important that if we were going to ask other Americans to bear part of

the burden of deficit reduction, that the Federal Government and its employees, in part, had to set the example. So that was the reason for recommending the pay freeze, which many other States have had to go through with regard to their own employees. It was the reason for recommending the administrative reductions that are part of the Executive order that is being implemented right now, and also the streamlining that I built into the budget as well.

Specifically with regard to the annuity question, I think if there is one area that we need to review again, it's that area. I think we do need to say to Federal employees, "Look, we've asked you to bear part of the sacrifice, and we know that you're taking your hit," but at the same time I think we also have to say to them that we respect what they're doing and the investments and commitments that the Government has made to them, particularly with regard to annuity programs and survivor's benefits. That is an area that we ought to think twice about before we try to make any changes.

So I think the reason for this, just so you understand, is because there is some concern about the actuarial soundness of the current program. There does need to be a review of what steps we need to take to make sure that the program remains actuarially sound. I don't want to put it all on the back of the Federal employees, but I think, to be truthful, that was part of the thinking when that recommendation was made. That's one area that we are taking another look at as we work with the committees on reconciliation to see what can be done.

Senator MIKULSKI. I can't stress that enough, because these people who will be turning to the survivor's benefit have nowhere else to go, and they have no time. When they signed up for that provision of the survivor's benefit, they assumed that they could trust the very Government that they worked for. If it is not actuarially sound, we're sympathetic to that.

But to say that Federal employees should bear the burden, Federal employees will bear the burden, but it will be like changing the rules of Social Security in the middle of the game, not through the tax program. So that's No. 1.

IMPACT OF FEDERAL EMPLOYEE PAY FREEZE ON LOW-INCOME EMPLOYEES

No. 2, we then get into the issue of, "Hey, Federal employees are willing to take that pay freeze." Their cousins, their family members, their State and local governments—including my own State—are doing that. What they are concerned about is a rolling freeze, and that it's a freeze for every year over the next several years. They wonder if there is not a more fair way to do that where we essentially say, "A freeze this year, and perhaps if you're going to do a freeze in the future, base it on the GS level." Somebody like me who is a Federal employee who makes $130,000 a year could work a week without pay, as compared to a GS–4 who could not do that. So asking me to forgo a COLA, although numerically it's higher—that's the kind of creative thinking; those who could bear the burden for an extra year could then go ahead and step up to it.

I am also concerned—and I wonder what your thoughts are—that the President is encouraging people to retire, and that is one

way to reduce the Federal work force. However, the Federal retirement is based on your 3 best years. The incentive is to wait it out, and I would tell all of my Federal employees, "Wait it out," as opposed to taking a look at those who are about to retire, and again, handle it differently. So we accomplish the President's purpose, both in terms of streamlining the Federal Government and reducing the deficit, but right now the incentive is to stay rather than to go with this 3-year situation.

I wonder if you've thought of the consequences of that and wonder what you might have under review, to look at how you can encourage retirement rather than discourage it, and therefore link that to this "rolling pay freeze."

Mr. PANETTA. On the first point, on the pay freeze, you have made this point before and I think you make an excellent point with regard to it being across-the-board. You are penalizing people at the lower income levels with the same club that you're using against those at the upper income levels in the Government.

We are currently working with the committee to try to see if we can develop a more scaled approach to this so that we don't hit people at the bottom in the same way. I think you've made a legitimate argument on that. I think we have to be fair in the way we apply this. As I said, everybody ought to bear their share of what needs to be done to deal with this huge deficit, but at the same time it ought to be done on the basis of their status and where they're at. We're trying to work on a formula to try to do that.

On the retiree issue, the retirement issue, our whole goal is, frankly, that as we do these FTE reductions we can do it on the basis of people who are retiring from Government and be able to do the 100,000 reduction largely on that basis over these next 4 years. But to make it work, I think we are going to have to provide some additional incentives with regard to retirement. Otherwise, you're right, people are basically going to wait it out. That is another aspect that we're looking at right now.

Senator MIKULSKI. I think it's crucial.

RECRUITING AND KEEPING FEDERAL EMPLOYEES

If the Chair could just indulge one other question, the President needs to recruit people to work in the Federal Government. If you talk to Federal employees in Maryland now, they will tell you that they would not necessarily encourage their sons or daughters to come to work for the Federal Government. The reason for that is that they are demoralized, they are ridiculed, they are made fun of, they are identified as part of the problem rather than the policies of the Government. It's the people who deliver it. Also, when they enter into a contract with their employer, then that employer—which should be the model employer of the United States—changes the rules of the game on retirement, on pay, and so on. We face a very difficult time in recruiting people.

I'll just give you two examples at two opposite ends. At one hand you have a firefighter at NIH. We need specialized firefighters because they have to go into labs, and they don't know what's in those labs. It could be an AIDS virus; it could be hepatitis virus; it could be TB, but they're willing to take a high risk. Now it's easier for them to just roll out and work in a regular fire department.

Then you have someone working on the cure for Alzheimer's and Parkinson's and so on. They know that if they went into private practice, whatever is the 1 in front of their salary, just change it to 3 or 4. But they want to stay there because it's the NIH. We have to look at how we're going to recruit people to come into the Federal Government, keep the best and the brightest, and at the same time streamline it.

I really encourage that rather than looking at it as a budget issue, we coordinate with Jim King at OPM and really resolve these issues of the need to recruit, the need to retain key people, the need to streamline; but most of all, whatever agreement we come up with for our Federal employees, we really keep it and not break it.

Mr. PANETTA. Senator, you make an excellent point and I agree with everything you've said. I have spent a lot of my life in public service, and one thing that concerns me a great deal is people who do work in public service that do not find it the kind of occupation that ought to be treated with the dignity that it deserves, very frankly. I think part of the problem is the way that Government is regarded generally.

But I think our goal here is to try to improve the way people view Government, because Government has to improve the way we do business with people. If we can make Government more efficient and more effective in delivering services—you know this as well as I do. When I was a Representative from my district, a tremendous amount of casework was just spent on Government screwups of one kind or another, either checks not being delivered or something not being done or something happening. So we have to carry that responsibility, and it creates a terrible view of the Government's ability to deliver on the services that we promise people. We have to improve that end of it. We have to make Government more efficient.

Senator MIKULSKI. Absolutely, and entrepreneurial.

Mr. PANETTA. But in doing that and in being much more sensitive to people, we also have to say to those who work in Government that we're going to stand by our commitments and we're going to make it a job that deserves some respect.

So we have to do both, and I want to work with you on that effort.

Senator MIKULSKI. Thank you.

Mr. Chairman, I know others have questions.

Mr. Panetta, I look forward to your response to these ideas, particularly as we move forward on the reconciliation package and the appropriations.

Senator DECONCINI. With the indulgence of my colleague from Nebraska, I am going to yield to the ranking member of the Appropriations Committee, Mr. Hatfield, who is here, for opening remarks.

Senator Hatfield.

STATEMENT OF SENATOR HATFIELD

Senator HATFIELD. Thank you, Mr. Chairman.

I would like to welcome you here. In fact, I am in the midst of a confirmation hearing in the Energy Committee of three Assistant

Secretaries, which is very important too, of course, but I was informed that Senator Bond, the ranking Republican member of this committee, is on the floor with an amendment, and that we were not represented here as the minority party. So I decided to slip out for just a few moments to welcome you, Mr. Panetta, to say that you have one of the toughest jobs in our Government. I know of no one who elicits more confidence and trust than you do, and I just wanted you to know that as a member of the minority I am awfully proud to call you my friend and to know that you have this great responsibility. And to welcome you to your first appearance before this subcommittee.

Mr. PANETTA. Thank you very much, Senator. I appreciate it. As I said to Senator DeConcini, I look forward to a cooperative relationship on both sides of the aisle as I try to do my work down at OMB. It's a very tough job, as you know, with some tough challenges, but they are the same challenges that we all face in the country. I think people really expect us to live up to those challenges.

Senator HATFIELD. Thank you.

I want to thank the Senator from Nebraska for letting me intrude here, out of turn, and I will be excused.

Senator DECONCINI. The Senator from Nebraska.

Senator KERREY. No intrusion.

HEALTH CARE REFORM

Mr. Panetta, I would like to pursue this health care thing.

Mr. PANETTA. Sure.

Senator KERREY. When you were chairman of the Budget Committee on the House side, you and I had a conversation about an idea that I had. You sent me a very thoughtful letter, the conclusion of which was that the proposal that I had wouldn't work, as I recall. [Laughter.]

Mr. PANETTA. Could I have that letter back now? [Laughter.]

Senator KERREY. Indeed, I found it very constructive, and I am now trying a different idea out on you.

The foundation for the effort, Director Panetta, is that one of the things that's very difficult to get at in health care is the truth. This town is full of people who are intentionally trying to confuse people, it seems to me, hoping that nothing will happen; or if something happens, it won't affect them; or if it affects them, it won't affect them in an adverse fashion. That seems to be what's going on.

And there are constant representations being made by people: "Oh, if you just do this, this will happen, it will be good." I have a desk full of suggestions that would simply, with the stroke of a pen, change the system and solve all the problems, including attempting to channel with people who are no longer with us and those sorts of things.

The idea that I have is a Federal unitary trust fund. I honestly don't necessarily expect you to give me a yes-or-no answer today, but I would like to describe it and then I'll send you some additional information, and perhaps we can have some discussions later.

The idea begins by saying that we will account for every single Federal health expenditure, and we will account for it in a single fund. That doesn't mean we merge the programs—the Veterans Administration, for example, with the Federal Employee Health Benefit Program, or the Army, Navy, Air Force, Marine Corps, the National Institutes of Health, or the CDC or Medicaid-Medicare, all these expenditures that are being made. It simply means, let's create a single account so that in the first instance we present to the American people an accounting of where we're spending money. So when they read the paper and they see that in 1992 we spent $808 billion for health care, they know that included in that $808 billion was approximately $284 billion in total, as I account for it—and I'm not sure my accounting is correct; that's part of the problem, because I'm just grabbing numbers and trying to put them together—but somebody needs to give the American people an accounting so that they know how big the total expenditure is and where the expenditures are being made.

Second, what I am suggesting is that we are going to have a pay-as-you-go system, and that we will specifically dedicate existing taxes to pay for whatever it is that we've decided we're going to spend. For example, one of the things that I do in my proposal is to say, "I will dedicate a 3-percent payroll tax. I will dedicate a Federal health insurance premium payment. I will dedicate all the alcohol and cigarette taxes that we currently collect—no new taxes at this stage of the game—and I will dedicate approximately 27 percent of the personal income tax flow and 27 percent of the corporate tax flow, and that gets me $284 billion for the current year."

Well, it is very interesting what that provokes when I talk about it at home. People say, "I'm against a 3-percent payroll tax." I say, "Folks, you're paying one now." "Well, I didn't know that." "Absolutely. You're paying a 3-percent payroll tax." We have 20 million Americans who are working today who don't have health insurance who are paying a 3-percent payroll tax into a system to provide health care for other Americans who have reached the age of 65.

It seems to me to produce a very healthy debate about which taxes we want to use to pay the bill.

The third thing that it does, it seems to me, and this is where it gets back to the objective that I had earlier in your former role, is that it produces a discipline. With the dedicated taxes that I've just mentioned, what we discover is that next year we're $10 billion short; essentially, that the growth in Federal spending for health care exceeds the growth in the rate of the economy, and as a consequence the dedicated taxes—those income and corporate and cigarette and payroll taxes—aren't growing as fast as health care expenditures. So by my calculations we would have $318 billion of health care bills next year, but we will be generating only $308 billion, so we would have to either cut $10 billion or generate $10 billion of new taxes to pay the bill.

As I said, it produces an honest accounting, which I think is crucial. It produces an important debate about which taxes we're going to dedicate, and it produces the kind of fiscal discipline that I think is urgently needed if we're going to be able to take the next step and advance into an honest debate on how we're going to reform our health care system in a comprehensive fashion.

Mr. PANETTA. Let me make a couple of comments, because I know of your interest in this issue. You have really provided a tremendous amount of leadership in terms of the recommendations that you have made with regard to health care reform.

As this debate begins to heat up and as people start looking at the choices that are going to have to be made here, I think the American people have to understand that we fundamentally cannot sustain the present system. We can't do it. We can't sustain it in terms of cost. We have costs in Medicare and Medicaid that are going to triple over these next 5 years. Health care costs are going to continue to increase at 12 to 15 percent each year.

You are absolutely right, we are looking at almost a doubling in the cost of the programs, from $200 billion to $400 billion. Businesses can't sustain health care costs.

The American people have to understand that the present system is one that we can't afford right now. It's not working very well. It's not efficient, not effective, and it certainly is leaving a lot of people caught in the gap.

So I think all of us need to work together to try to deal with the kind of reforms in the system that are absolutely essential. I can tell you that from a budget point of view, no matter what we do on this budget, if we put this reconciliation plan into place—and I hope we do; it's over $500 billion, a combination of the revenues plus the caps on spending plus the reductions in mandatory spending—we put that in place, we'll get the deficit down. We'll take it down by 1997, roughly from about $357 billion down to about $200 billion, and we'll get the deficit-to-GDP ratio down. But if we don't control health care costs, the deficit goes right back up.

So it is absolutely crucial to our whole effort to try to deal with this deficit situation that we do both economic planning and health care reform.

On the cost issue, I think your suggestions are really deserving of very close attention, because I think that if you're going to make the case to the American people, "What does our present health care system cost," you have to be able to show where those costs are. Right now they're dispersed, you're right. You have veterans on one side, this on one side, NIH over here, you have Medicare here, you have Medicaid there. We don't have a clear picture of what those costs are at the Federal level.

I think at the very least it wouldn't hurt anybody, at least in presentational terms in the budget, to say, "This is a summary of health care costs in this country" and present it that way. I think that makes some sense.

EDUCATING THE PEOPLE ABOUT OUR HEALTH CARE SYSTEM

Senator KERREY. It is remarkable to me—it shouldn't be, since I am constantly stumbling up against my own ignorance—but it is remarkable to me how uninformed supposedly informed people are on the subject. I put myself in the same category; I am constantly discovering things.

At this health care conference I referenced earlier, one of the great applause lines—and you and I know how to construct an applause line, but if you wanted to walk into this audience of 900 or 1,000 people and get them to give you applause, what you did was

kick the Federal Government around. "We need to get the Federal Government out of health care." Thunderous applause. I say, "Folks, the personal income in Nebraska is $27 billion, and I'm sure you're all proud of generating that personal income. But $4.3 billion of that personal income are transfer payments from the Federal Government. That doesn't include farm programs. That doesn't include contracts. And a full one-half of that $4.3 billion is for health care spending. So if you want the Federal Government out, I suppose that means that you want me to go back and cut that $2.3 billion cash flow out." Well, of course not.

This is one of my disgusting references, but there is a terrific movie called "Kiss of the Spider Woman" where the woman is the source of the spider web. It seems to me that in health care, we are caught in our own web. One of the things we have to do is present an honest accounting to the American people, and then get into a very honest debate about which taxes we want to use.

Coming from the other side of the aisle—but not from my good friend, Senator Hatfield—I very often hear that anytime anybody suggests that we're going to use taxes to pay for health care, people get up and say, "We shouldn't do that," as if we're not doing it right now. Because there is precious little accurate information out there, it tends to provide an environment where scoundrels can flourish. You don't need to encourage us to be scoundrels, if you know what I mean. [Laughter.]

We sort of do it even when we're not in here. I wouldn't even exclude myself.

One additional question, Director Panetta, and that——

Mr. PANETTA. Just to complete the answer, on the pay-as-you-go issue, if in fact you develop any system where you have to get contributions in order to pay for it, I think you have to be able to account to the American people that it's not just simply going into a large general fund. I think you really do have to look at establishing a trust fund in order to show that that's what it's being used for.

So I think both of the points you've made are very important points to be looked at in any kind of health care reform proposal.

Senator KERREY. You said you are going to emphasize the word "management" in OMB. Again on the issue of health care, I would just ask—and I don't need an answer right now—one of the things that we are desperately short of is data that is current and meaningful. The data is spread out all over the place. There is data in Commerce; there is data in Labor; there is data in HHS. So we end up shooting at a moving target. We get the data 18 months after it's worth anything, so we're constantly short of knowing in fact what's workable. We don't know which system is efficient.

It seems to me that one area where there is consensus between Republicans and Democrats—certainly the President has talked an awful lot about it, and I think has gotten the people's attention—is that we need to move toward a point where we are more sensitive to price. I don't think the health care system is a very good example of a good market, and I don't think that health care expenditures will ever conform to the same sort of consumptive attitude that you have when you're buying groceries. Nonetheless, I

think it is important for us to get closer to the price and understand what costs are.

It seems to me that one of the things we're going to need, if that is to be the case, you're going to have a couple hundred million people out there trying to figure out where they should go and what decisions they should make. It seems to me that one of the things we're going to have to have is much better data and information than we have right now. It just seems to me that perhaps someone in your shop under the management heading could evaluate that and provide Congress with some guidance as to what we ought to do to solve that problem.

Mr. PANETTA. It's one of the immense problems that we're dealing with in the whole health care reform effort, trying to develop that data base, that information base that people need in order to make the decisions.

As you can imagine, all of the data is dependent upon determinations related to utilization, related to cost, related to human behavior, and what will be the different reactions, depending on the different approaches that are taken. It is sometimes very difficult to model these things in a way that you can then say, "Well, these are the numbers that flow from a certain decision." Yet, we have a responsibility to do that. Our staffs at OMB have been working very closely with HHS, as well as Treasury, to develop that information base, because I think when the debate starts on health care reform we are going to have to provide the best information possible to sustain that debate, because everybody will have their own different numbers. It's just like the budget, sometimes; no matter what numbers you present on the budget, somebody else has a different approach to dealing with those numbers.

I think in this instance we have to do the best we can to develop that data base. We have to provide information to the public so that they understand why these issues are before them and what decisions they have to make. So that is a major, major investment of our time right now in dealing with health care reform.

Senator KERREY. With the indulgence of the Chair, one of the crucial parts of the data, it seems to me, is that it has to make sense. I've got to be able to understand it; otherwise, it's not very useful. I appreciate that. I have a smaller and lesser capacity to understand things, but I think it has to be in that form.

I will give you an example of a decision that we made, that the country made not long ago, that unquestionably has an impact upon costs in the system and, hopefully, will also have an impact on quality of health care, but it was an expensive decision. The FDA approved a drug called Tachrine that is used for Alzheimer's. Now, it is effective in 25 percent of the patients. You don't know which 25 percent, so it will be used for 100 percent of Alzheimer's patients. The estimates are that it will add an incremental cost of $1.2 billion or so into the system.

One of the general questions that is out there is, "Why is it so darned expensive? Why is it costing me so much?" Well, this is the kind of thing that the customer, the taxpayer, the citizen needs to see up front: "Here's a clear answer to your question." You want to provide medicinal assistance to people who have Alzheimer's,

hopefully solving that problem in 25 percent of them. If you want to do that, it's going to cost you $1.2 billion to get the job done.

We have very little of that kind of sensitivity and that kind of consciousness right now in the current system. It seems to me that the data not only is not being collected, but it is not being presented to the citizens so that they can make informed decisions.

FACING REALITY BY EDUCATING THE AMERICAN VOTER

Mr. PANETTA. I agree with what you've said. If they are presented with the clear choices, then they'll make those decisions. We need to do that.

I think the unfortunate thing is that over the last 12 years, for whatever reason, the issues that we've had to deal with in this country have been glossed over, whether it's the deficit or whether it's health reform or whether it's dealing with some of the international challenges we have had to face. I think this country has basically postponed a lot of those decisions, and I think that's what the November election was all about.

We now have a responsibility to bring these issues in a truthful fashion to the American people, because none of these choices are going to be easy. I think we have to understand that if we're going to try to change the way the deficit is going, if we're going to try to change health care delivery in this country, those decisions are not easy. And if the President is willing to provide leadership on these issues, people have to understand that all of us are going to have to pull together to try to change the direction of this country. If we start getting back into what I call the "ethic of the 1980's," where you always look for the easy answer or point at somebody else or say that somebody else is trying to get away with it, "go after them," instead of trying to say, "Look, we've all got to work together to try to solve these problems," then we'll never solve the challenges that face us.

So I think this is a good example of what we face.

Senator KERREY. Well, I really appreciate your leadership, and the President's leadership, as well.

Senator DECONCINI. Senator Kerrey, I thank you for raising such an important point. Like you, I often feel like I am walking into a dark closet when I am in the health care area, and finding out something—a new light, or a crack in the wall, or something.

Your point about the need for some education and the public knowing what is spent—the Senator's suggestion, he has been a leader even before the elections and has been up front about his proposal, but now he is just making such an argument that is so necessary if we are ever going to sell this, in my judgment. I don't know how I'm going to sell it because of my lack of education in this area, and that of my constituents. They want health care, but they don't understand how much is spent. As the Senator so well pointed out, they are really paying for it now.

So I compliment you, Senator Kerrey, for moving in that direction. I hope for a trust fund or whatever can be derived so that you can clearly see what is spent.

Speaking of trust funds, which I know you're not keen on but I'm glad to hear you support one. [Laughter.]

I've got another one. The problem is also the public's constant perception that when we raise taxes for deficit reduction, the deficit has not come down. President Bush found that out in the last 1990 budget reduction. Now we are asked to raise a lot of taxes, and I suspect that if everything occurred the way that it was in the budget agreement that passed here, if no emergencies came along, Saddam Hussein or Hurricane Andrew or more aid to Russia or troops in Bosnia or Somalia or something, the deficit would come down.

Some of us feel that we need to sell the public, Mr. Director, that it really is going to be used for deficit reduction. Congressman Schumer on the House side, and myself here, have proposed—we have sent up a balloon that has not gotten off the ground, I must say; it doesn't seem to have any air in it—and that is to create a deficit reduction trust fund. The sole purpose is that all, or a large percentage, of new revenues under the Reconciliation Act would go into that fund, and that fund would go out on the market on a scheduled basis and buy the debt, just like any investor would, and retire it.

I talked to Senator Bentsen for many, many years about this, and it's always been pooh-poohed away, but we've never had such a tax increase here, nor have we had the public's attention, from President Clinton and Ross Perot, that by God, there's no kidding this time, no fooling around; and if the deficit doesn't come down, the political consequences are known to all of us. But the consequences of the public's image of what we're doing here are going to be astronomical, because no longer are they going to say, "Well, you had an excuse," or, "I'll just throw you out of office." They're going to be really upset.

If that's not the answer, I would sure like to see some discipline or something put into this reconciliation. In the Senate budget—and I believe it was preserved in the conference committee—the Finance Committee was directed to draw such an account. I hope you don't resist it, or if you do resist it, you have some alternative that the moneys that we're raising are going to go to deficit reduction.

Mr. PANETTA. Senator, I can assure you it's not being pooh-poohed at the Office of Management and Budget.

Senator DECONCINI. Thank you for that encouragement. I did not know that, to tell the truth.

Mr. PANETTA. No; it's part of our enforcement recommendations that we have to make as part of reconciliation. Obviously, we're going to be recommending the controls on discretionary spending. We have to recommend the pay-as-you-go requirement again as part of our enforcement sequester process, which will be part of our enforcement mechanism. All of these will be recommended to enforce what we put into the budget.

The additional area we are seriously considering is to look at the ability to set these funds aside that we're asking in terms of contributions from the American public, to assure them that they are going specifically for deficit reduction.

Senator DECONCINI. Well, I've worked with the legislative office here, constructing these things. It is not easy, as you know better than I. But if this Senator is going to vote for $100 billion of new

taxes over 5 years, or more than that, I have to have some assurance. I'm just not going to walk down that path again. I've done it in good faith, and I've resisted it——

Mr. PANETTA. Having been a member of this institution, I think I can understand why Members would want to bring that argument back.

Senator DECONCINI. I thank you for your optimism about it, and the seriousness.

IMPACT OF FEDERAL STAFF REDUCTIONS ON LAW ENFORCEMENT PERSONNEL

Mr. Panetta, the President's Executive order—I want to turn to personnel reduction. Reducing Federal personnel requires each executive branch agency to reduce personnel by 1 percent in fiscal year 1993, another 1.5 in fiscal year 1994; and in addition the Executive order instructs each agency to make at least 10 percent reductions of SES, GS–15's, and GS–14 positions.

I compliment you and the President for trying to wrestle with the growing bureaucracy. I am extremely concerned about the impact of these reductions on law enforcement agencies. I know the first answer is, "Well, as soon as you accept anybody, then you lose the whole thing." For the past 4 years we've been trying to build up the war on drugs and increase law enforcement. President Clinton comes along with a campaign pledge, which he says he's going to keep, for 100,000 new police officers for communities around the country.

Was there any thought given during the issuance of the Executive order to instructing agencies not to take the reduction in high-priority areas like law enforcement and, to use the President's argument in his campaign and his pledge for 100,000 new officers, that that was not intended? Or maybe it was intended.

Mr. PANETTA. No; when I talked with the Secretaries from the various departments with regard to the FTE reduction, you can imagine that they are concerned about FTE reductions in the areas that are of high priority to them. What I indicated to them is that in our budget review process, which will begin within a few weeks as we go through each agency and department again, that part of that discussion will focus on the FTE issue. We want to work with them to assure that their priority areas are protected as we try to go through this. Obviously it means that they have to make some tough decisions within their departments and agencies, but I think that in the priority areas that they're concerned about and that the President is concerned about, we have to do it in a way that allows them some flexibility to make adjustments along those lines.

Senator DECONCINI. Well, when you say "make adjustments," in the overall reduction maybe you can take some out of administration and regions and what have you. But if the overall reductions—say, Customs Service; last year Congress funded 300 positions for Customs Service for inspectors to man the ports of entry on the southwest border because we're just inundated. Yet with the Executive order, Customs will only fund 100 of these positions in fiscal year 1993, and in fiscal year 1994 they will be cutting an additional 465 positions, including 75 positions from INC and 85 posi-

tions from Tariff and Trade. This is in the face of NAFTA perhaps being approved.

Law enforcement is involved in drug interdiction. Doesn't this undermine President Clinton's ability to facilitate trade with Mexico and the war on drugs? And isn't there a justification for exempting some law enforcement, if not all law enforcement, from these reductions? That means that nonlaw enforcement would have to take a bigger cut, but law enforcement is relatively small in the total budget. Just the war on drugs alone is in the neighborhood of $12 billion; although that may be a lot of money to a lot of folks, in effecting the total cut of personnel and expenses, to me something has gone astray here.

Mr. PANETTA. Well, in addition to the flexibility that I've talked about, the President has given waiver authority in these areas.

Senator DECONCINI. In the area of law enforcement?

Mr. PANETTA. With regard to FTE's generally. So what I intend to do, as agencies bring any appeals to me with regard to that issue, I do have the ability to make some kinds of adjustments.

Senator DECONCINI. So if a case is made, you are prepared to waive it?

Mr. PANETTA. Exactly.

Senator DECONCINI. And without predetermining, you are not determined that you are going to turn those down per se?

Mr. PANETTA. I want to listen to the facts. Obviously, I don't want to set a precedent.

Senator DECONCINI. There may be justifications in your own mind that would justify that and not go contrary to what the direction of the Executive order is.

Mr. PANETTA. If they can make a very strong case justifying that, and it's an area that I think is important to the President's priorities or in the national interest, then obviously that's something I have to pay close attention to.

CUSTOMS AIR INTERDICTION PROGRAM

Senator DECONCINI. Let me turn to the Customs Air and Marine Interdiction Program, Mr. Panetta. For fiscal year 1994 the administration has requested $83.09 million for this project; however, the President's budget proposes to fund $37 million of this out of unobligated balances available to Customs from previous years.

This really bothers me for two reasons. First, by using unobligated balances you are reducing the base funding for the account for fiscal year 1995. Second, when the committee reviewed the unobligated balances we made it clear to the Treasury that we expected these funds to be used for other urgent Customs requirements, like permanent change of station moves to support the Integrity Program; personal computers for inspections and to facilitate commercial operations, et cetera.

Can you tell me how the decision was made to use the unobligated balances in this account against the fiscal year 1994 appropriation request?

Mr. PANETTA. I think I'll yield to Ken Ryder on that one.

Senator DECONCINI. Would you identify yourself, please?

Mr. RYDER. Ken Ryder.

We worked with the Treasury Department in reviewing the situation to try to maintain a total program level for the Customs Service that would meet the objectives that the Customs Service had in mind. When we reviewed the need for new funding to maintain those services, some of which were indeed the items you have mentioned—things like the PCS change that had already been put in place, and a number of other efforts that Customs had under way to support their inspectors down on the Southwest border—we identified that they did have, as you correctly point out, a substantial amount of unobligated balances, some of which were earmarked for particular purposes, some of which were still available to be reused. In developing a final budget we came to an agreement with them on using those to meet the Commissioner's and the Treasury's highest priority items.

We tried to maintain a program level that would not represent a reduction relative to the program level that was under way in 1993.

Senator DECONCINI. That's encouraging. Does that assure this committee that the program base will be fully restored for fiscal year 1995?

Mr. RYDER. Well, the program base is going to be maintained at the base that it's operating at right now.

Senator DECONCINI. It is? So the fact that you've used an unobligated balance, you're not going to reduce the program base?

Mr. RYDER. That's correct.

BUDGET TREATMENT OF CUSTOMS P–3 OPERATIONS

Senator DECONCINI. Well, that's encouraging, and I thank you for that.

Let me ask some questions, and perhaps you're the one to talk about the Customs P–3 operation and the maintenance account that they're in. In 1993 the Congress provided $28 million for operations and maintenance of the Customs P–3 programs. These funds were designated as Defense 050 funds and were not counted against the limited domestic discretionary cap to this subcommittee. I requested the designation, as I firmly believe that there is no difference between the mission flown by DOD in support of drug interdiction and those flown by Customs P–3's. As a matter of fact, the missions flown by the P–3's operated out of Howard Air Base down at Panama City are undertaken in cooperation and consultation with the Department of Defense.

I see in the fiscal year 1994 budget that the P–3 program has been designated as domestic discretionary, not Defense. Can you explain the rationale? And doesn't it really make sense to keep this in the defense area? I know they are tight, but so is everybody else, and unless the administration has changed, defense is supposed to be part of the war on drugs. Why move this?

Mr. PANETTA. I think I'll let Ken fill in the pieces.

My understanding on this was that last year there was an agreement made that this would basically be covered by defense, so it was moved over into that area. My predecessor agreed with that approach. What we are basically trying to do this year is return it back to where it was rather than keep it under defense. Since we don't have the walls any more between domestic and defense, we

felt there was enough flexibility to be able to fund the program without having to treat it in a different fashion. So that's really the logic.

Senator DECONCINI. And you're going to stay with that decision?

Mr. PANETTA. That's correct.

Senator DECONCINI. It's awful tough. I look at it from the perspective of this committee, of course, but I also serve on the Defense Committee. The Defense Appropriations Committee has been very supportive of designating $1.4 billion last year for drug interdiction. It seems to me that that decision, Mr. Panetta, falls outside of what has been the policy. Is it the intent to continue to designate a chunk of defense money for the drug war?

Mr. PANETTA. I would imagine that under the constraints we're operating with, the Defense Department will continue to play a role there.

In this instance an exception was made, and we wanted to go back to the way it was treated before. But I can assure you that in other areas we're going to continue to see what kind of cooperation we can get between the Defense Department and the drug effort.

Senator DECONCINI. We would like to convince you to let defense absorb that, because it truly is used for defense.

Mr. PANETTA. We may be in a position where you might win that argument. [Laughter.]

Senator DECONCINI. You may not have time to do it, but if you get a briefing from the Defense Department and Customs, together or separately, you will find out just how closely they are aligned down in Panama, which is where a good portion of this is spent; not all of it, but most of it.

REFORMING PAY SYSTEMS FOR FEDERAL LAW ENFORCEMENT PERSONNEL

Let me ask a question on the classification and pay system for law enforcement. I think we told you we would ask some questions on that.

The Federal Law Enforcement Pay Reform Act of 1991 recommended a separate pay and classification system for Federal law enforcement and required OPM to develop a plan and report back to Congress on the plan by January 1, 1993. It is my understanding that OPM submitted a report to OMB last December, but that OMB decided not to approve that plan and send it to the Hill, but to leave this issue to the next administration.

Well, here we are. In a recent letter to me on this report you stated, "We will give this matter priority attention and get the report to Congress as soon as possible."

Last week, during OPM's hearing, I asked Director King if he had seen the report, and he stated that it was still over at OMB.

Can you please give me an update on the report, Mr. Director, and explain why we haven't seen it and when we might?

Mr. PANETTA. Obviously, we have been waiting for people to be in place. I was made aware of this and have now expedited that. That's going to go to OPM, and I'm going to try to get it back to you. I think this is something we ought to be taking a very close

look at. I know it's been bottled up in the past, and I want to move it.

Senator DECONCINI. Thank you. I'll accept that, and I presume that you mean in the foreseeable future of a few weeks or less?

Mr. PANETTA. Within the next few weeks.

Senator DECONCINI. OK.

Let me ask a question here, then I'm going to let you go, Mr. Director, and submit some of these. I have two other areas of real importance. I have some on health care, but I think we went into it at great length there.

STAFFING LEVELS AT OMB

On the staffing levels at OMB for fiscal year 1993, you request an increase of 12 FTE's to a new level of 565. In fiscal year 1992 your estimated FTE level was 553, and in your fiscal year 1994 presentation you are showing a 1993 staffing level of 534, or 19 below the level in 1992 and 31 below the 1993 requested level.

While I recognize that the Congress reduced your fiscal year 1993 budget request by $1.6 million, which undoubtedly affected your projected staff levels, we are confused here as to how the 1993 level got to 534, even with the 6 FTE reduction mandated by the President's Executive order. Can you give us—maybe you want to give us that in writing, but I would like to have a little explanation so that we know what's going on here.

Mr. PANETTA. Sure. Let me try to get somebody else to respond here.

Chuck?

Mr. KIEFFER. Chuck Kieffer.

Senator DECONCINI. Mr. Kieffer, thank you.

Mr. KIEFFER. There were a lot of lump sum leave expenses, associated with the outgoing officials, and we had to pay for those. So that resulted in us having less dollars to pay for FTE's, so it reduced the overall FTE's.

Senator DECONCINI. By making these payments as they left, you mean?

Mr. KIEFFER. Yes.

Senator DECONCINI. OK.

Can you define that for the record, how many people were involved and how much that cost?

Mr. KIEFFER. Sure.

Senator DECONCINI. That would help us a lot.

[The information follows:]

Several factors reduced OMB's FTE estimate for fiscal year 1993 from the original request for 572 to the current projection of 534 FTE's:

One, OMB's budget request was reduced by $1.5 million during the appropriation process;

Two, terminal leave payments for outgoing staff resulting from change in administrations;

Three, salary costs were not able to be reduced as much as originally planned through hiring lower graded employees (turnover rate was lower than anticipated);

Four, higher than anticipated costs for employee benefits; and

Five, compliance with the President's Executive order to reduce FTE's (E.O. 13839).

STATUS OF AGRICULTURE DISASTER ASSISTANCE

Senator DECONCINI. Disaster assistance, Mr. Director—in September 1992, President Bush announced that $755 million from the Dire Emergency Act of 1992 was being made available for agricultural disasters. The supplemental appropriation transfer and rescission bill in 1992 included an additional $320 million for Commodity Credit Corporation for additional disaster assistance, as authorized by the 1990 farm bill.

Can you tell me the current balance, or give us the current balance, of the CCC fund? And are you aware that the Department of Agriculture recently announced that a specific signup would be held to allow corn producers to apply for disaster assistance based on quality losses, but that they won't let cotton producers apply for such?

Mr. PANETTA. I am very concerned about what's happening in this area right now. We're getting a lot of requests essentially covering quality problems with regard to crops. The law in the farm bill made clear that while we would cover quantitative disasters with regard to different crops, that there was a separate formula to cover any qualitative damage. Now there are arguments being raised that we ought to basically use the same formula for quantitative damage; in other words, take quality damage and apply it under the quantitative changes.

The corn issue was the first presented. We tried to limit that because we do have some history, particularly with regard to aflatoxin, that we made an exception with regard to qualitative change, and gave them disaster assistance based on that. In this instance, with regard to Michigan, we asked the Department of Agriculture to develop a formula that is very specific to the damage with regard to corn.

I am trying to keep that from getting expanded, because you're absolutely right, we have some other States that are asking for treatment on qualitative damage. Right now I am resisting opening up that possibility.

Senator DECONCINI. Let me just give you the argument for the State of Arizona and other Western States on the whitefly and the unusual weather patterns that we have.

As you know, the whitefly has resulted in severe crop losses there. Report language which accompanied the 1992 supplemental appropriation bill urged that cotton producers experiencing losses associated with the whitefly be made eligible for benefits.

Now, I realize that's only report language, but it noted specifically that the economic losses suffered by cotton producers include total yield losses as well as low—sometimes unsalable—quality fiber. That's what was in the report language.

Mr. PANETTA. Yes; you've got some pretty clear report language that's in there, related to that kind of damage.

Senator DECONCINI. You and I know that report language is not binding on you, but you've been around here long enough that you know we take it very seriously, and we urge administrators to take it seriously. If the Secretary of Agriculture is making qualitative adjustments on an individual commodity basis, why can't you and the Secretary conclude that cotton ought to fall under that, at least

in the specific case where you have a plague of whitefly? It may go away; there is a lot of research going on there, and it may be gone. It may not be like the boll weevil, that is going to be around forever. I'm not sure. It just seems like we're getting mistreated.

I don't want to take anything from the corn people——

Mr. PANETTA. No; I understand.

Senator DECONCINI. But it just doesn't seem fair, Mr. Director.

Mr. PANETTA. Let me assure you that I'm looking at each request on a case-by-case basis because I want to be able to ensure that, as I said, we don't just open up a precedent.

Senator DECONCINI. Well, have you concluded on the cotton?

Mr. PANETTA. No; we haven't even begun to consider that.

Senator DECONCINI. And will you do that?

Mr. PANETTA. We certainly will.

Senator DECONCINI. OK. That's all I can ask.

Mr. PANETTA. We're still working on potatoes. [Laughter.]

Senator DECONCINI. Do you have any time that you might be able to address all these things, with all the necessary needs you have? Are we talking about weeks or months or what?

Mr. PANETTA. No; generally, these issues develop on kind of—in the last few weeks we've been working on that issue, related to these specific requests coming in. So our next step is probably to focus on the cotton issue.

FEDERAL GOVERNMENT RESPONSE TO ARIZONA FLOODS

Senator DECONCINI. We have a problem in Arizona. I hate to be so parochial, but the ASCS office has estimated crop losses from the 1993 floods, which we all witnessed on CNN, of $67 million. For some places that's small; where you come from, we are a small producer, but still it's very important to our State. This includes both abandoned crops and losses from prevented planting.

The Emergency Conservation Program, as you well know, provides assistance to farmers in rehabilitating land damage by flooding. The Arizona ASCS office estimates that Arizona will require an additional $3.8 million in funding. The Soil Conservation Service recently directed $4.7 million to Arizona for an emergency project under the Emergency Watershed Protection Program. This program relieves imminent threat to lives and property. An additional $2.4 million in funding is needed to cover the 23 flooding-related projects.

Can any of these programs be funded from the urgent emergency disaster assistance appropriation associated with the legislation and declaration made in 1992?

Mr. PANETTA. We have looked at that issue and we think there are sufficient resources without the need for a supplemental to cover the damages out there.

Senator DECONCINI. And you are prepared to order that interpretation?

Mr. PANETTA. That's correct.

Senator DECONCINI. Well, thank you for that, because it makes eminent sense, particularly if the money is there.

Mr. PANETTA. The money is there.

Senator DECONCINI. It's not going to go to deficit reduction; it's going to sit there. To me, that's a good way to handle it.

Based on that favorable response, I'm just going to submit a lot of other questions in this area, including a lot of questions concerning the Corps of Engineers' supplemental request for 1994. We hope that you would take a look at this in the FEMA disaster relief fund. We need some interpretation of the funds that are already there, Mr. Director, that should be available—not just to Arizona, but it seems unproductive and unresponsive for the Government not to find a way to spend those moneys. I don't mean just give them out; they have to be justified, but I thank you for that.

Last, just so the record is clear—if you want to—last week you were quoted in a Washington Post news article indicating that you thought the President's programs were in trouble. Would you care to explain that, either for this audience or for this Senator? [Laughter.]

CONFRONTING OUR ECONOMIC CHALLENGES

Or you can call me this afternoon or tomorrow, but I wanted you to have an opportunity in a public forum. As you know, we have not talked about this before. I almost called you, quite frankly, and I compliment you for speaking your piece. I think it is important and credible for the administration, and not an insult to the White House or anybody else, that the head budget person would tell it like they see it at the time. Things change, but I wanted you to have an opportunity to address that if you cared to, Director Panetta.

Mr. PANETTA. I appreciate that, Senator. This is one town where, when you tell the truth, it makes headlines.

My biggest concern, obviously, in what was a fairly free-wheeling interview, was to talk about problems I saw, particularly on Capitol Hill. I was very concerned with what happened with the jobs bill. I think the President shared that frustration. The concern is that when you are trying to put an economic plan into place, particularly in view of the anemic recovery that we're having—and the numbers that just came out today confirm again that this is not a strong recovery that this country is dealing with, and I think everybody has to understand that. We're not in a typical recovery that follows a recession. We're in a very weak recovery. We're not producing jobs, and the consequence is that we continue to run the danger that we're not going to be able to move the economy forward.

So the combination of what we did on the budget resolution, and following it with the jobs bill, and having that basically be filibustered to death, raised tremendous concerns that on a number of other issues we're going to face the same problems. So as I said, I think the President shares my frustration, and the key right now is to get the message out to the country that it is very important for this country to move forward in trying to deal with the economic challenges that face this Nation. And it isn't just the issue of deficit reduction, on which I think the President has presented a bold plan. It is also the initiative of providing some jobs to people. That is absolutely crucial if we're going to get the economy going.

So those were the reasons. And as you say, in the job of being Director of the Office of Management and Budget, I probably have to be a pragmatist.

Senator DECONCINI. Somebody has to tell it like it is, and I compliment you for that.

GRAZING FEE AND MINING ROYALTY REFORMS

Last, Mr. Panetta, I want to thank you particularly, and the President, for addressing some of the needs that were raised by Western Senators in the budget that was submitted. Contrary to press reports that said you all caved in on reform of grazing or mining, you did not. You were realistic to relook at the calculations of how much money you were going to raise from those, and to agree to discuss scaling them back, but without abandoning the reform of this administration. I think it's been reported unfairly and criticized, over on the House side in particular. I truly hope that Secretary Babbitt will take the same attitude that you have, that we need to find a compromise that implements reform. I think the mining industry, the people in Arizona, and the grazing industry are willing to reform, but they cannot take a 12.5-percent royalty or some of the things that were first floated.

We are in the process of dealing in good faith negotiations with the administration on those on a legislative basis, particularly in the mining area.

But I thank you for your willingness to look at it, because I understand where you've come from in the Congress and the side you've been on there, but it wasn't a sellout or a giveaway by any means. It was finding a solution, as President Clinton has constantly done during his career as Governor, and has indicated he will do here with anybody who wants to be reasonable.

Mr. PANETTA. It was really in accord with what we had basically intended here. We are going to achieve savings in these areas. We have to. But the real question was, how do you do it in an effective way that tries to work with the people that are going to be impacted here? On the grazing fees, Secretary Babbitt has already started a series of hearings throughout the west. He is getting good input, and ultimately he is going to recommend something based on those forums. We think that's the way to do it. We're having an impact on people out there, and they ought to have some input in the process.

Second, on the mining royalties, this ought to be part of the mining law reform proposal that has to take place. We think that is the better place to deal with it. We've talked to Senators on both sides of this issue who think that's the best place to deal with it. So we're not in any way backing off from the savings. What we are trying to do is to take into consideration each of these areas and do it in a way that hopefully will implement the best reforms.

Senator DECONCINI. From the White House—I don't know from OMB, but from the White House—on the mining area, they are willing to scale back without abandoning the reform, and that means an increase or a royalty, no question about it.

Mr. PANETTA. Exactly.

Senator DECONCINI. But how much and what will be the net entity that the royalty will be applied to—that's all we ask for in the

West, is a negotiated environment. So far from the White House, and we hope from OMB, that will continue to be the case.

Mr. PANETTA. Yes, sir.

SUBMITTED QUESTIONS

Senator DECONCINI. Thank you, Mr. Panetta. We will submit additional questions to be answered for the record.

Mr. PANETTA. Thank you, Senator.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR DeCONCINI

Scoring of Lease Purchases and/or Capital Leases

Question. The Government borrows money to finance all government operations. Why is it more expensive to borrow money for construction projects if we mandated that financing had to be done through the Federal Financing Bank?

Answer. Borrowing through the Federal Financing Bank (FFB) is essentially the same cost as normal Treasury financing and both are cheaper than borrowing from private sources. The only difference to agencies between financing new construction through the FFB as opposed to with direct appropriations is that agencies are required to budget for and pay FFB the cost of interest (plus a very small administrative fee). Interest associated with borrowing to fund direct appropriations is paid by Treasury, and is not charged to the agencies.

Question. What I have seen occurring since these rules have been in place is that if OMB wants a capital lease project to occur, it simply changes the term of the lease to 27 years and does not require that the title convey to the Federal government at the end of the lease term. This occurred last year with the Atlanta and Philadelphia buildings. It seems to me that OMB has simply altered the policy when it suited its purpose. I don't think this is equitable and I don't think it is in the best interest of the Federal government to pay lease rates for 27 years and then be left with no asset at the end of that period. -- Can you respond to this?

Answer. OMB has not, and will not arbitrarily change its scoring rules or principles to fund a special project. Quite the contrary, legislative requirements that are contrary to OMB's scoring principles have been imposed upon us in the past. Specifically, the Treasury, Postal Appropriations Act of 1993 authorized GSA to enter into an "operating lease" not to exceed 27 years for up to 1.4 million square feet in a building to be constructed by the Atlanta Downtown Development Authority. It is my understanding that the former Administration did not propose or support a 27-year lease in Atlanta. Rather, GSA had recommended construction of a new Federal building. If funds were not available, however, a 20-year consolidated operating lease was recommended. GSA's leasing authority is for up to 20 years. OMB continues to question the economic rationale that supports a 27-year lease.

With respect to the Philadelphia project, the Act authorized GSA to enter into an interagency agreement to lease, not to exceed 20 years, up to 1 million square feet of space in a building to be constructed by the

Postal Service. The building is to be located on land owned by the Postal Service in Philadelphia and financed with the Postal Service's funds or borrowing authority. (It is my understanding that the Postal Service has recently withdrawn from this arrangement, and that the building may not be built.)

White House Supplemental

Question. What savings have already been realized at ONDCP due to the change in Administrations and the reduction in staff due to the political personnel departing?

Answer. A total of $4.087 million was identified as savings resulting from the change in Administrations and the reduction of staff. The salary portion of the savings identified was for staff no longer employed by ONDCP. The bulk of the remaining savings were for such things as: services contracts not needed; rent and utility savings from closed down office space; and travel no longer anticipated. Savings are:

FY 1993
Savings

Salaries	1.688
Travel	.423
Transportation of Things	.014
Building Rent	.064
Communications & Utilities	.014
Printing	.067
Other Services	1.598
Supplies	.100
Equipment	.119
Total	4.087

Question. If current staff levels, I believe somewhere in the range of 52, continues through the last day of the fiscal year, what would be the savings in the ONDCP budget for fiscal year 1993?

Answer. The savings calculated for FY 1993 were based upon the assumption that about 60 career staff might remain on board through fiscal year 1993. The departure of political appointees and reduced operations yields a total of $4.087 million in savings for FY 1993, compared with estimated costs when the FY 1993 appropriations bill was enacted.

Investment Package

Question. Director Panetta, I want to compliment you and the President for focusing on both short and

long-term investments for this country which is the linchpin of our economic security. The investment package is certainly a step in the right direction. Although I may not agree with each and every component of the package, I do agree with the concept and hope the White House and the Congress can work together on a bipartisan package which will benefit the country. Obviously, the big question is how it is going to be funded since the amounts requested exceed the spending caps by $5 billion. For the Treasury Subcommittee, there is a request for $137 million for the IRS's tax systems modernization projects with transfers of $39.7 million coming from productivity savings in other IRS accounts, and a request of $6.7 million for the General Services Administration. Can you give us any idea of the discussions currently underway on how the Administration intends that we fund this package?

Answer. The Administration will work with the Subcommittee to identify appropriate offsets to ensure that the President's investment priorities are funded within the Budget Enforcement Act caps.

Support to the President and the Vice President

Question. Director Panetta, in statement of managers language accompanying the fiscal year 1993 Treasury Appropriations Act the conferees instructed OMB to submit a report to the House and Senate Committees on Appropriations which included a detailed list of all support from Federal agencies provided to the President and the Vice President. Your predecessor, Mr. Darman, sent us the report as required but it did not contain specific information on DOD support, i.e, the costs of Camp David, costs to provide Presidential travel on Air Force One, etc. Mr. Darman stated that any additional information the Committee requested would have to be decided by the next Administration.

Mr. Panetta, do you plan to provide this information to the Committee and if so, can you give me some timeframe?

Answer. During the White House reorganization effort, the White House focused on reducing White House staff. As a result of that effort, we proposed to eliminate 350 positions (25%) by October 1, 1993. Entire organizations are proposed to be eliminated (such as the National Space Council and the National Critical Materials Council) and others are proposed to be reduced.

With regard to the support of other agencies, because of the security issues associated with some of the support, we would like the opportunity to present this information to your staff on a confidential basis.

As the White House, OMB, and DOD review ways to reduce discretionary spending, I want to assure you that we will review all costs associated with the White House complex.

Government Perks

Question. Does the Administration intend to address military golf courses separate from other perks? If so, has the Administration resolved how it will handle the lucrative Morale, Welfare and Recreation fund?

Answer. The Department of Defense advises that the operation of golf courses on military installations is not separate from other programs offered our military members in the Department's Morale, Welfare and Recreation (MWR) program. DOD advises us that golf courses are revenue-generating activities that receive essentially no taxpayer support. The large majority of military golf course patrons are enlisted members and junior officers. The revenue golf courses generate is from service members' incomes and is used to support other MWR community programs such as youth programs, sports, recreational programs, and community centers. Only in overseas areas or at remote stateside locations are golf courses allowed to receive a small portion of taxpayer support. The MWR program is not considered a "perk", but is an essential element in supporting the quality of life, retention, and mission capability of service members and their families who serve around the world under all types of conditions.

The Administration does not have a plan, at this time, to change the way military golf courses are operated.

I would be happy, however, should you wish to pursue a more flexible approach to discuss this matter further.

Question. As we continue to downsize the military and more bases are closed and facilities sold which include golf courses we will need to address the valuation of these courses.

Has the Administration devised a formula to calculate the value of the courses?

Answer. The Administration does not plan to use formulas to calculate golf course values but rather professional appraisers who will include the earning potential of the golf courses in determining the value.

Question. Will current earning potential be a consideration in devising the formula?

Answer. The Administration does not plan to use formulas to calculate golf course values but rather professional appraisers who will include the earning potential of the golf courses in determining the value.

Question. How does the Administration propose to dispose of these golf courses once they have been valued?

Answer. Golf courses will be sold to the highest bidders and, to the extent possible, will be sold separately from other installation parcels. This process is currently being followed at Chanute Air Force Base.

Question. How does the Administration intend to distinguish what is or isn't non-official business travel for Cabinet members?

Answer. There are only two situations where a Cabinet member could be engaged in "non-official business travel." The first situation could occur when a Cabinet member travels for official business and, incidental to that travel, engages in personal or political activities, e.g., visits a relative or attends a political event. Current policy precludes any such non-official activities in connection with official travel if they would result in increased cost to the government. The second situation could occur when a Cabinet member is required to use government aircraft because of security, communications, or exceptional scheduling reasons, and wants to go on vacation. OMB Circular A-126 requires that all such uses of government aircraft must be documented and subjected to very stringent approval requirements. Furthermore, all official travel must be documented and approved on an official travel authorization or travel order form.

Question. What will constitute not discharging the agency's official responsibilities? Could the Administration provide hypotheticals to help us understand their policies?

Answer. As indicated in the previous response, visiting relatives or friends while on an official trip, going on vacation, or attending a political event would not be "discharging the agency's official responsibilities." Yet, such activities could reasonably occur while on an official trip or when the use of government aircraft is required for the official's air travel because of security, communications, or exceptional scheduling reasons.

Executive Order on Personnel Reductions

Question. What oversight, if any, did OMB exercise to ensure that the mandated 10 percent reduction in SES, GS-15 and GS-14 employees were implemented by the

agencies in their budget submissions? What happens if these personnel reductions cannot be achieved through attrition?

Answer. The detailed budget estimates presented in the President's Budget distributed the proposed personnel reductions throughout the Executive branch personnel accounts. OMB provided guidance to the agencies on the implementation of the reduction in an OMB Bulletin (No. 93-08). Supplementary guidance concerning the monitoring of reductions in Senior Executive Service, GS-15, GS-14 and equivalent levels was transmitted to the agencies on June 2, 1993. It is OMB's intention to monitor the required reductions from reports of senior level positions provided monthly by the Office of Personnel Management through the Central Personnel Data File System. Under the Executive order it is the responsibility of each agency to achieve the required reductions in FYs 1993, 1994, and 1995. OMB will monitor their progress.

FTS 2000

Question. Director Panetta, as you may know, for the past several years the Treasury bill has carried a general provision which mandates the use of FTS 2000 telecommunication systems for all Executive branch agencies. The Administration has requested similar language in its fiscal year 1994 budget request. Last year when I asked OMB whether or not it could mandate the use of these systems without legislation the answer was yes. When the Senate marked-up its bill, we dropped the provision. We took this action because I don't believe the provision is necessary and because our bill is getting used as permanent authorization for the FTS 2000 program. To be quite candid, I don't want to be put in a permanent state of having to defend the program and its costs. It seems to me that if it is a good thing, OMB should get the White House to issue an Executive order mandating its use. Therefore, we inserted language in the final bill stating that an executive order should be issued. To my knowledge this has not occurred and the proviso on the Executive order is proposed to be dropped in the Administration's FY 1994 budget.

Director Panetta, can you tell me whether or not you concur with your predecessor Mr. Darman that legislation is not needed to mandate the use of FTS 2000 system in the Executive Branch of government?

Answer. We believe GSA has the authority under the Brooks Act (40 U.S.C. 759) to mandate the use of FTS 2000 by agencies.

Question. Why are you requesting this [mandatory use of FTS 2000] general provision in our bill once again?

Answer. Although we believe GSA has the authority under the Brooks Act (40 U.S.C. 759) to mandate the use of FTS 2000 by Federal agencies, appropriations language mandating use has been enacted every year since 1988. Removal of the language might appear to signal a change in the Administration's position on this issue.

Question. Why doesn't the Administration issue an Executive Order on FTS 2000?

Answer. The GSA Administrator has adequate authority under the Brooks Act (40 U.S.C. 759) to mandate the use of FTS 2000 by agencies.

Administrative Reductions

Question. The President issued an Executive order mandating a three percent reduction in all administrative activities of all Federal agencies for fiscal year 1994. Your budget justification states that administrative costs for purposes of this Executive order includes all non-pay object classes except for equipment and rent to GSA. For OMB, this reduction totals $210,000. What assurance can OMB give Congress that these reductions will indeed be taken in areas for all Federal agencies to reduce excess or unnecessary overhead costs and not in program areas which affect delivery of services to the public?

Answer. Executive order 12837, "Deficit Control and Productivity Improvement in the Administration of the Federal Government," dated February 10, 1993 mandated that each agency reduce its administrative expenses. OMB provided general instructions to the agencies on the implementation of the Executive order. OMB examining divisions are currently working with the agencies to identify the steps taken by the agencies to achieve productivity savings and to improve the administrative productivity of the agency. The agencies will be asked to update the information provided to reflect Congressional action on appropriations. The FY 1995 through 1998 Budgets will present status reports on implementation of the required administrative savings.

Health Care Reform Financing

Question. Recent reports about the health care reform effort undertaken by President Clinton indicated that 20 different financing mechanisms for the reform are under consideration by the Task Force on Health Care Reform. Having served in the Congress as Chairman of the Budget Committee, you know the single most important

question many members will focus on immediately when the President submits his reform proposal is the cost of the plan.

What is your best estimate of what national health reform will cost?

Answer. The Administration is in the process of formulating a health care reform proposal, and a number of options are being considered. The President has not yet made decisions on major components of the proposal that will affect costs and financing. Therefore, it is not possible to provide an estimate of the costs at this time.

Question. Out of the 20 options which supposedly have been identified, are there any which, either singly or in combination, could generate a reasonably reliable source of revenues to pay for universal health coverage for everyone?

Answer. The President has not yet made decisions on major components of the health care reform proposal that will affect costs and financing. The Administration identified, and is in the process of examining, a number of options to finance aspects of the health care reform proposal.

Question. Are Medicare savings one of the 20 financing options which the Task Force is considering?

Answer. Yes.

Question. I get concerned when I hear that Medicare might be tapped to help pay for reform. President Clinton has already proposed to take $46 billion in deficit-reduction savings out of Medicare over the next five years. In addition to this amount, I understand his budget suggests that, between 1995 and the year 2000, another $80 to $90 billion in Medicare savings will be found for health reform.

Where are we going to find all this money in Medicare when we have already ratcheted down the program for the last decade?

Answer. Medicare spending is expected to grow by 12.1% per year over the next five years under current law. In order to slow projected growth and its effect on the deficit and to begin to bring Medicare in line with the Administration's vision of health care for the future, the President's Economic Plan proposed reductions in the Medicare program that would reduce the rate of growth in Medicare spending over the next five years to 10.3%. In making these savings proposals, our objective was to protect beneficiaries from increased cost sharing to the greatest extent possible while targeting the areas of greatest program growth such as

hospital outpatient, labs, and home health services, for reductions. These proposals are designed to begin the process of health care cost containment in programs in the public sector; other areas of possible savings are being examined as part of the health care reform effort.

Question. How are we going to squeeze up to $90 billion out of the program without compromising our senior citizens' access to quality health care?

Answer. The Medicare savings proposals in the President's Economic Plan are a down payment on the types of changes that will be needed to finance health care reform. The President's Economic Plan reduces the rate of increase in Medicare spending; it does not reduce spending below existing levels. We are working to ensure that the Administration's health care reform proposal preserves and enhances access to quality health care for senior citizens.

Unemployment Compensation

Question. Mr. Director, last week the Commerce Department reported that the Nation's Gross Domestic Product grew at a sluggish 1.8% rate during 1993's first quarter. Further, other recent indicators also highlight the current weakness of the American economy. Our first quarter trade imbalance widened as exports fell, new orders for durable goods decreased by 3.8%, and housing starts fell by 7.5% between December and February.

Mr. Director, as you are aware, Congress recently approved over $4 billion in funding for extension of unemployment benefits for those Americans who have exhausted their state unemployment benefits. I supported extending additional funding for out-of-work Americans. Unfortunately, when I go home to Arizona there are many out-of-work Arizonans who have exhausted both their 26 weeks of state benefits and their 20 weeks of federal benefits. In a normal recovery, 46 weeks of unemployment benefits should be ample time to find other employment. However, Mr. Director, we are not in a normal recovery. In fact, we are 3 million jobs short of a normal recovery.

Something needs to be done for those who now have exhausted both State and Federal unemployment benefits. Does the Clinton Administration have any plans to help this group of unemployed Americans? If so, what? If not, why not?

Answer. The Administration's goal is to turn the economy around. Our proposed investments in jobs and new technologies, reduction in the Federal deficit, and incentives for private businesses to invest will all contribute to renewed economic activity and job growth.

But economic recovery alone will not help all unemployed workers. As the Secretary of Labor has noted, many workers are not being recalled to their old jobs as the economy recovers; they must find new jobs with new employers. To help these dislocated workers, the Administration has proposed a new comprehensive worker adjustment program as part of the FY 1994 investment package.

This new program will provide a wide range of adjustment services to dislocated workers, including training and income support to help them get jobs. The details of this proposal are being formulated and legislation will be introduced this summer.

OMB Budget

Question. Your fiscal year 1994 budget includes $930,000 to complete the last phase of implementation of your budget and financial information systems. What productivity savings if any will be realized when the system is fully installed? What savings have you already realized?

Answer. As a result of implementing the budget and financial information systems, we expect to produce in a more timely manner budget information during the budget formulation and production phases. The new system will also allow OMB to analyze and score more readily congressional action on appropriations and reconciliation bills.

Question. Your budget justification states that OMB will continue to assess its ADP requirements and provide the Committee with this assessment during fiscal years 1995 through 1999. Are you contemplating additional upgrades, if so, for what purposes and what are the estimated costs?

Answer. OMB is currently reviewing its ADP requirements to assess what will be needed to maintain the investments made to date and which improvements will be necessary in light of changing technology and software. OMB plans to provide the Committee with a complete assessment of these requirements with our FY 1995 budget submission.

North American Free Trade Agreement (NAFTA)

Question. The Washington Post, or at least its headline writers, reported last week that you said the NAFTA is dead. You have since said that your comments were misinterpreted.

Will you explain your current views on NAFTA? Will you elaborate on the Administration's efforts to ensure

that the side agreements to the NAFTA are completed so that implementing legislation can be considered be Congress?

Answer. Rather than pronounce NAFTA "dead", I stated that, were NAFTA presented to Congress now, it would not have enough votes to pass. President Clinton has made it clear that his Administration will address concerns the public and Congress have about NAFTA's impact on labor and the environment through the side agreements under negotiation with Canada and Mexico.

A key goal of the United States is to have Mexico and Canada agree to establish tri-national commissions that will promote:

- o the enforcement among NAFTA countries of their national environmental and labor laws, and;
- o cooperation on various issues related to the North American environment.

There will be a separate commission for both environment and labor issues. Each commission will perform its basic function by monitoring and reporting on how well the NAFTA countries enforce their own labor and environmental protection laws.

The Administration expects to conclude the supplemental negotiations this summer in order to secure NAFTA's implementation by January 1, 1994. This schedule will slip only if more time is needed to negotiate the supplemental agreements. Implementing legislation will be submitted shortly after the supplemental agreements have been completed. With the completion of the side agreements, I am actually optimistic about the chances for NAFTA's passage.

Disaster Assistance

Question. I have noted that the President's FY 1994 budget proposal does not specifically request additional funding for agricultural-related disaster assistance for growers in Arizona affected by the flooding disaster.

Can you tell me if the needs of Arizona growers affected by the flooding and other areas of the country hit by storms since January 1993 were considered in preparing the FY 1994 budget? How would you treat funding for programs to assist those affected by the flooding disaster under the Budget Enforcement Act? Shouldn't disasters like that suffered in Arizona be considered true emergencies for funding? If not, how would you suggest that these disaster-related needs be offset to comply with the Budget Enforcement Act?

Director Panetta, during consideration of the FY 1993 Supplemental I intend to offer an amendment to cover Arizona's needs relating to the flooding disaster. Will you work with me both to assess the true scope of the need and to find the funding necessary to meet that need?

Answer. The President's FY 1994 budget requests funding for programs operated by USDA that can provide assistance to growers affected by flooding. These programs include Farmers Home Administration emergency loans, ASCS grants for flood damage to fields and trees, and Federally subsidized crop insurance. The budget act allows for extraordinary emergencies beyond these ongoing programs through a joint emergency designation by the President and the Congress, or by finding offsetting rescissions for legislated assistance programs. We will certainly work with you to determine whether the losses in question can be adequately addressed with the existing programs, or if not, what offsets might be found for additional assistance, or whether an emergency designation is appropriate.

Flooding in Arizona

Question. Arizona has experienced severe flooding since January 1993 due to record levels of precipitation during the months of January and February. The state was under a Presidential Declaration of Disaster because high levels of water from rainfall and snow melt breached many flood control structures damaging land, homes, personal property, public facilities, highways, and businesses. The flooding also indicated flooding problem areas where flood control structures are needed to prevent damage like that experienced so far in 1993 as a result of the recent flood event.

Neither the Corps of Engineers supplemental request nor its Fiscal Year 1994 budget request includes any funds for expenses resulting from Corps activities related to the flood event. They also do not include any funds to respond to requests from communities in Arizona for repair work to existing flood control structures or to initiate studies to identify, prioritize and present recommendations to prevent a repetition of these flooding problems.

Can you tell me if the need for funds for the Corps to repair flood control structures damaged in the January flood event or to deal with flooding problem areas were considered in preparing the FY 1994 budget request?

Answer. With regard to the flood damages caused by the January 1993 flood to non-Federal facilities, you should recall that the President released $12 million in Soil Conservation Service (USDA) contingent funding from

the 1992 Hurricane Andrew supplemental to address flood-related damages in several western states including Arizona. The Army Corps of Engineers was also asked if they required additional funding to respond to the flooding, not only for the Fiscal Year 1994 budget but also for the President's Fiscal Year 1993 supplemental. According to the Army Corps of Engineers, they did not require additional funding. The Corps is using funds under Public Law 84-99, its basic Flood Control and Coastal Emergency authority, to respond to the flooding. The Corps allocated $3 million for this effort, and has awarded two contracts to date under this authority, in excess of $600,000, for flood fighting activities. The Corps has sufficient Flood Control and Coastal Emergency funds to meet future normal year requirements during the remainder of FY 1993.

We understand that Corps facilities have been damaged by the flooding. However, the extent of damage to the Corps' Painted Rock Dam outlet works has not been assessed because of high water. These works will be inspected after the water has been drawn down sufficiently to allow an inspection. The FY 1994 budget for the Corps Operation and Maintenance Account would be adequate to fund any necessary repairs at this facility because of the Corps ability to move funds within the account to meet high-priority needs as they occur, such as repairing a flood control dam.

The FY 1994 budget does not include any additional funds to conduct a restudy of the flooded basin and no consideration was given to include a study of the basin because the Army Corps of Engineers did not identify a need at the time the budget was being prepared. The basin was last studied in the early 1980's, and the Corps is now conducting an assessment as to whether a restudy is needed.

Federal Emergency Management Agency

Question. The Federal Emergency Management Agency (FEMA), under the Robert T. Stafford Disaster Relief Act and Emergency Assistance Act, administers the Disaster Relief Fund. Because of the number of national disasters that have occurred in this country already in FY 93, including Arizona's flood emergency, I am concerned that the Disaster Relief Fund remain solvent through the fiscal year. How can we make sure that the Disaster Relief Fund remains solvent? What additional funds will be necessary to cover the disasters that have already taken place this year as well as potential disasters that may occur during the remainder of FY 1993?

Answer. The extraordinary disaster activity over the past few years has created future claims on the Disaster Relief Fund that are projected to exceed currently available resources, however, it is not clear

when the Fund will exhaust unobligated resources. The Fund currently has approximately $750 million in unobligated balances. If these resources are not sufficient in meeting remaining FY 1993 requirements, the President has the option of releasing all or part of the $143 million in emergency contingency resources, provided in the FY 1992 Supplemental Appropriations Act (P.L. 102-368). OMB staff will continue to work closely with FEMA staff in tracking the evolving status of the Fund.

Question. FEMA's budget for FY 94 includes $292 million for the Disaster Relief Fund. It is my understanding that the President's budget request for the Fund usually reflects the annual average which is approximately $490 million. Why is there such a large discrepancy between the annual average of the Disaster Relief Fund and the President's budget request? How can you be certain that a figure of $292 million, which is so much lower than the average, will be sufficient to cover the requirements of the Disaster Relief Fund in FY 1994?

Answer. The FY 1992 Supplemental Appropriations Act (P.L. 102-229) stated that beginning in FY 1993, and in each year thereafter, all amounts appropriated to the Disaster Relief Fund, in excess of the either the historical annual average obligation of $320 million, or the amount submitted in the President's initial budget request, whichever is lower, shall be considered "emergency requirements". The President's FY 1994 request of $292 million represents the historical annual average obligation level of $320 million referred to in the FY 1992 Supplemental Appropriations Act, less anticipated regulatory savings of $28 million. As of this date, given the high incidence and costs of recent disasters, it is possible that the Fund will exhaust currently available resources and the requested amount prior to the end of FY 1994, particularly if the rate of disaster activity remains high.

Rillito River Flood Control Project

Question. Director Panetta, the Corps of Engineers has been working with officials in Pima County, Arizona on the Rillito River Flood Control Project since the last major flood event in Arizona in the early 1980's. Following the damage from that event, the Corps conducted reconnaissance and feasibility studies to determine necessary flood control measures. During the recent floods, the area again suffered heavy flooding causing significant economic losses in Pima County. The recent flooding required some redesign of the project,

and it is imperative that construction of the project begin as soon as possible. I had hoped that the Economic Stimulus package would have included some vital Corps projects for Arizona. However, no Arizona projects made it into the President's proposal.

In light of the recent flooding in Arizona and the potential for numerous flood control projects, why were no Arizona projects included in the Economic Stimulus package?

Answer. The purpose of the President's Economic Stimulus package was to get our economy moving again and produce jobs. Two criteria guided the design of the Corps portion of the package: (1) speed -- items in the package needed to be fast-acting and job-creating -- funds were to be obligated in Fiscal Year 1993 and expended no later than Fiscal Year 1994; and (2) content -- items selected needed to be worthwhile on their merits and meet all normal criterion for funding.

The Army Corps of Engineers stimulus proposal did not include any Arizona projects because they could not identify any construction work or additional maintenance work that would meet the President's criteria.

The Soil Conservation Service stimulus proposal was planned to provide financial assistance for emergency watershed repair. To the extent that the Hurricane Andrew Supplemental funds, totaling $62 million, did not meet all emergency needs, stimulus funds would be directed to those areas, including Arizona. If additional emergency funds were not needed in FY 1993, the Soil Conservation Service would use the stimulus funds to carry out non-emergency small watershed projects.

Question. I would like to encourage an expeditious review of the Project Cooperation Agreement on the Rillito River Flood Control Project by the Corps of Engineers and OMB so that construction can begin on the project in Fiscal Year 1994.

Answer. The Rillito River project is currently being engineered and designed by the Army Corps of Engineers. Because of the recent flooding in Arizona, additional engineering and design work is required. As a result, completion of engineering and design has been rescheduled from August 1993 to April 1994.

QUESTIONS SUBMITTED BY SENATOR BOND

Budget Issues

Question. The Budget caps will be exceeded with the President's submission. Where will the offsets come from?

Answer. The Administration will work with the Congress in an effort to fund the President's priority investment proposals within the budget resolution caps. We will work with the Appropriations Subcommittees to identify necessary offsets.

Question. On page 1247 of the Budget Appendix a general provision is proposed. It says: "The amounts provided for in this Act shall be available only upon enactment of an Omnibus Budget Reconciliation Act, pursuant to section 310 of the Congressional Budget Act, that contains amendments to section 601(A) of such Act providing adjustments consistent with such amounts offset by savings pursuant to section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended." Will we be seeing a justification for this?

Answer. The Administration intends to work with the Congress in an effort to fund the President's budget proposals within the constraints of the Budget Enforcement Act and the Congressional Budget Resolution. The President supports the changes to his budget outlined in the Congressional Budget Resolution. The Administration looks forward to working with the Congress to resolve any differences between the budget and the legislation that implements the budget resolution.

Revenue Forgone

Question. The Postmaster General testified before the subcommittee last month regarding the impact underfunding of the revenue forgone subsidy and the requirements of the Omnibus Budget Reconciliation Act to pay for health and other benefits of the former Post Office Department has and is having on the Postal Service. I would like to address two issues General Runyon raised. My major concern is the inference that these issues could lead to a rate increase sooner than currently projected.

First, he indicated that he felt the Postal Service had met the OBRA requirements in previous fiscal years. Would you like to comment on this issue? Will this issue be resolved at some point?

Answer. The 1990 OBRA Conference compromised on the amount to be paid for the liability, using an amount substantially lower than CBO and OMB estimated was necessary to satisfy the present value of the liability. The House bill contained a payment $1 billion higher than Conference, acknowledging the liability and interest costs. The Conference report does not state whether this payment was intended to fully resolve the outstanding USPS obligation.

The Administration proposal would resolve the remaining $946 million USPS liability. This proposal amortizes the obligation into three annual payments between FY 1995 and FY 1997.

Question. Second, this Subcommittee has been forced to deal with the funding shortfall for many years. Unfortunately we have been unable to come up with a plan which makes everyone happy. For the first time in that period of time the Postal Service and different groups in the mailing community have come forward with proposals to change the law permanently.

Has OMB looked at these? If you haven't will you, so we can have any thoughts you might have?

Answer. The Administration supports the efforts made by the Congress to strike a balance reflecting the importance of reducing the federal deficit, but takes no position regarding the competing revenue forgone reform proposals.

We plan to work closely with USPS and the Congress concerning competitiveness, which we view as having broad, long term significance.

Administrative and Personnel Reductions

Question. All of the agencies of the Executive Branch have been instructed to make savings in administrative costs and to reduce personnel over the next four years. I am supportive of this move, however, I am concerned that attrition is being used and some of the positions which will be lost are those which should not be reduced, while some positions which should be are not impacted. What guidance has OMB given agencies? Do they have flexibility in making these reductions?

Answer. Executive Orders mandating the savings in administrative costs and personnel were issued on February 10, 1993. The OMB Director provided guidance to Heads of Executive Departments and Agencies on the implementation of these orders via OMB Bulletins on March 4, 1993. Subsequent guidance has been provided to specify reporting requirements to the agencies. All guidance gives the agency heads substantial flexibility in the implementation of the required reductions. It is

the agencies responsibility to determine the most effective approach to achieving the required savings.

Savings from FTS 2000

Question. Almost every budget justification that we have seen indicates that agencies will be seeing a savings as a result of FTS 2000. Could you give the Subcommittee a total of the savings government wide?

Answer. The Price Redetermination/Service Reallocation process (PR/SR), one of the government's FTS 2000 contractual price control mechanisms, was completed during FY 1992 and will result, according to GSA estimates, in significant price reductions of $450 million over the remaining FTS 2000 contract period. In addition to contract price reductions, agency FY 1994 budgets reflect lower FTS 2000 costs that are due to reductions in GSA administrative overhead costs.

The total estimated savings to agencies in FY 1994 is approximately $85 million. These savings are based on the difference between the actual agency FY 1993 costs adjusted for inflation and the estimated price for such services if rate and overhead cuts had not been made (see attached agency breakout). The savings vary considerably between agencies due in part to whether the agency is assigned to Network A or B because the Pre-PR costs for the two networks contain significant differences. The variance is also due to the differing usage patterns between agencies.

Agency Savings from FTS 2000 Price Reduction
(in millions of dollars)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1994-97	FY 1994-9
Agriculture	2	2	2	2	2	8	10
Commerce	1	1	1	1	1	4	5
Education	*	*	*	*	*	*	*
Energy	3	3	3	3	3	12	15
HHS	7	7	8	8	8	30	38
HUD	1	1	2	2	2	6	8
Interior	2	2	2	2	2	8	10
Justice	16	16	17	17	18	66	84
Labor	2	3	3	3	3	11	14
Transportation	3	3	3	3	3	12	15
Treasury	28	28	29	30	31	115	146
VA	16	16	17	17	18	66	84
EPA	1	1	1	1	1	4	5
GSA	1	1	1	2	2	5	7
NASA	2	2	2	2	2	8	10
Total	85	86	91	93	96	355	451

* Less than $1 million.

Question. Will [FTS 2000] savings of this magnitude be expected in future years?

Answer. We anticipate significant additional savings when the second Price Redetermination/Service

Reallocation (PR/SR) takes place in 1997. Additional savings may occur if industry prices drop and GSA's quarterly price review successfully produces FTS 2000 prices that follow the industry trend.

Question. Will OMB continue to push for mandatory use in future years?

Answer. As a policy matter, the Administration supports the mandatory use of FTS 2000 provided it is the most cost-effective manner of providing these services.

Under the language proposed in the President's budget, mandatory use in appropriations law will apply if the Administrator of GSA reports by July 31, 1994 that FTS 2000 prices are cost-effective.

OMB Review of Agency Communication with Congress

Question. Is OMB increasing or decreasing the review of agency communications with the Congress? Why?

Answer. In an answer to a pre-hearing question on OMB's legislation clearance function for my confirmation as Director of OMB, I stated in part:

"The legislative clearance function serves a number of important purposes. It enables the Executive Office of the President to coordinate . . . agency legislative proposals that are needed to carry out the President's program . . . . When an agency expects to submit policy judgements or recommendations to Congress . . . OMB can fulfill a valuable role in making sure that such judgements or recommendations are consistent with those that may be presented to the Hill by other agencies or departments in the Executive branch."

I believe that OMB is fulfilling this responsibility. It is helping to assure that bills and position statements submitted to Congress by agencies carry out the President's policy objectives, and that these objectives are communicated clearly to Congress.

OMB has taken no actions that would lead to any increase or decrease in the review of agency materials under our legislative clearance function. The number of materials reviewed at any one time is largely a function of their rate of submission to OMB by the agencies.

EXECUTIVE RESIDENCE AT THE WHITE HOUSE

STATEMENT OF ROBERT G. STANTON, REGIONAL DIRECTOR, NATIONAL PARK SERVICE, NATIONAL CAPITAL REGION

ACCOMPANIED BY:

JAMES I. McDANIEL, ASSOCIATE REGIONAL DIRECTOR, WHITE HOUSE LIAISON, NATIONAL PARK SERVICE, NATIONAL CAPITAL REGION

MARYANNE MURILLO, BUDGET ANALYST, NATIONAL PARK SERVICE, NATIONAL CAPITAL REGION

INTRODUCTION OF WITNESSES

Senator DECONCINI. The next panel of witnesses consists of representatives of the Executive Residence at the White House, testifying on behalf of the Residence: Robert Stanton, Regional Director of the National Park Service; James McDaniel, Park Service White House Liaison; and Maryanne Murillo, Budget Analyst for the Park Service.

It's a pleasure to have you here. I'm sorry you had to wait so long, ladies and gentlemen.

The fiscal year 1994 budget request for the Executive Residence at the White House totals $7.925 million and 89 full-time equivalent positions. This amount reflects an increase of $327,000 and a decrease of eight FTE's from the fiscal year 1993 enacted level. Also included in this request are increases for various high-priority projects at the White House, including replacement of elevators, purchase of household equipment, and replacement of the exterior lighting. We will want to discuss some of these items.

Director Stanton, we are glad to have you here again, if you want to proceed with summarizing your opening statement, and then we will go to some questions.

STATEMENT OF ROBERT G. STANTON

Mr. STANTON. Thank you very much, Mr. Chairman.

As you pointed out, I am pleased to be accompanied by Jim McDaniel, who is our Associate Regional Director for White House Liaison, and to my right, Ms. Maryanne Murillo, who is a Senior Budget Analyst with our Regional Office.

Mr. Chairman, again on behalf of the Executive Residence, I am pleased to appear before this committee in support of the budget for fiscal year 1994. The appropriation for this account for fiscal year 1993 is $7.598 million, which includes funding for increased pay and benefit costs; continuation of the curatorial conservation project; and $50,000 in nonrecurring funds for traditional refurbishment of the family quarters.

The fiscal year 1994 request is $7.925 million, which is $327,000 above the fiscal year 1993 authority.

STAFFING REDUCTIONS

The Executive Residence, Mr. Chairman, in accordance with the President's initiative to reduce the deficit, increase productivity, and decrease the Federal work force, has undergone a reorganization resulting in the elimination of eight full-time positions and a savings of $309,000. These positions include one calligrapher, one florist, and one curator, as well as five domestic staff positions. In addition to these staffing reductions, the residence has also reduced its administrative expenses by $35,000.

CAPITAL IMPROVEMENT PROJECTS

There are two capital improvement projects requested in fiscal year 1994: $150,000 is requested to upgrade the exterior lighting system at the residence, and $235,000 is requested for modernization of the elevators within the Executive Residence. Both systems are badly in need of upgrade due to age, and replacement parts for both systems are currently very difficult to obtain.

AUTOMATED INVENTORY AND BILLING SYSTEM

Funding in the amount of $50,000 is also being requested for enhancement of the computerized inventory and billing systems at the Executive Residence, and $20,000 is requested for needed equipment in terms of shops and domestic equipment.

PAY INCREASES

The fiscal year 1994 request also includes funding one quarter of the fiscal year 1993 pay raise occurring in fiscal year 1994, premium pay costs, and merit and step increases.

CURATORIAL CONSERVATION PROJECT

Funds are also requested to complete the curatorial conservation project, currently under way at the Executive Residence. This project was initiated, Mr. Chairman, as you may recall, in fiscal year 1990 with the appropriation of $125,000, and has continued since that time with an additional appropriation of $100,000 each consecutive year. Phase V, the final year of the project, is programmed for $100,000, and will focus on the repair of nonstructural damage to furnishings, including scars in the finish or small losses of veneer or inlay.

Mr. Chairman, this concludes our budget request. Mr. McDaniel and Ms. Murillo and I will be pleased to answer any questions relative to this budget proposal for fiscal year 1994.

PREPARED STATEMENT

Senator DECONCINI. Mr. Director, thank you very much. We have your complete statement and it will be made part of the record.

[The statement follows:]

STATEMENT OF ROBERT G. STANTON

Mr. Chairman, and members of the Committee, I am pleased to appear before you to report on the Executive Residence at the White House and to present, for your

consideration, the fund requirements for the maintenance and operation of the Executive Residence for fiscal year 1994.

The appropriation for this account for fiscal 1993 is $7,598,000, which includes funding for increased pay and benefit costs, continuation of the curatorial conservation project, and $50,000 in non-recurring funds for traditional refurbishment of the family quarters. The fiscal year 1994 request is $7,925,000 which is $327,000 above the fiscal 1993 authority.

The Executive Residence, in accordance with the President's initiatives to reduce the deficit, increase productivity, and decrease the Federal work force has undergone a reorganization resulting in the elimination of eight full-time permanent positions and a savings of $309,000. These positions include one calligrapher, one florist, and one curator, as well as 5 domestic staff positions. In addition to these staffing reductions, the Residence has also reduced its administrative expenses by $35,000.

There are two capital improvement projects requested in fiscal year 1994: $150,000 is requested to upgrade of the exterior lighting system at the Residence, and $235,000 is requested for the modernization of the elevators within the Executive Residence. Both systems are badly in need of upgrade due to age; and replacement parts for both systems are currently very difficult to obtain.

Funding in the amount of $50,000 is being requested for enhancement of the computerized inventory and billing systems at the Executive Residence, and $20,000 is requested for needed equipment.

The fiscal year 1994 request also includes funding of the one quarter of the fiscal year 1993 pay raise occurring in fiscal year 1994, premium pay costs, and merit and step increases.

Funds are also requested to complete the curatorial conservation project, currently underway at the Executive Residence. This project was initiated in fiscal year 1990 with the appropriation of $125,000 and has continued since that time with an appropriation of $100,000 each successive year. Phase V, the final year of the project, is programmed for $100,000, and will focus on the repair of non-structural damage to furnishings, including scars in the finish or small losses of veneer or inlay. These repairs are essential to prevent the damage from becoming more severe. The fiscal year 1994 effort will also include repair to the gold-leaf surfaces of painting frames and some furniture.

This concludes our budget request Mr. Chairman. I shall be pleased to answer any questions you and the other members of the Committee may have about the operation of the Executive Residence at the White House.

Executive Residence at the White House

Fiscal Year 1994 Appropriations Summary Statement

This budget provides for the care, maintenance, repair and alteration, refurnishing, improvement, heating, and lighting, including electric power and fixtures, of the Executive Residence at the White House and official entertainment expenses of the President; $7,925,000 to be expended and accounted for as provided by 3 U.S.C. 105, 109–110, 112–114, of which $235,000 for modernization of the elevators within the Executive Residence and $150,000 for replacement of exterior lighting shall remain available until expended. (Executive Office Appropriations Act, 1994)

The fiscal year 1993 appropriation for this account is $7,598,000 as provided in Public Law 102–393. The fiscal year 1994 budget provides $235,000 for modernization of the Executive Residence elevators, $150,000 for replacement of the exterior lighting system, and $50,000 for the development and implementation of an enhanced automated inventory and billing system. Additionally, the budget provides $7,490,000 for normal operating expenses, A staffing reorganization, resulting in the elimination of 8 full-time permanent positions has been incorporated into the proposed budget, as well as a $35,000 reduction in administrative expenses.

JUSTIFICATION FOR APPROPRIATION, FISCAL 1994

[In thousands of dollars]

Activity: Operating expenses	1992 actual	1993 estimate	1994 estimate	Increase/ decrease
Operating expenses	7,262	7,598	7,540	−58
Exterior restoration	1,100	.....	.....	.....
Elevator rehabilitation project	.....	.....	235	+235

JUSTIFICATION FOR APPROPRIATION, FISCAL 1994—Continued

[In thousands of dollars]

Activity: Operating expenses	1992 actual	1993 estimate	1994 estimate	Increase/ decrease
Exterior lighting project	.....	.....	150	+150
Full-time permanent positions	(97)	(97)	(89)	−8

Authorization.—3 U.S. Code 105, 109–110, 112–114.

Objective.—To provide for the care, maintenance, repair, alteration, refurnishing, improvement, air conditioning, heating, and lighting (including electric power and fixtures) of the Executive Residence at the White House, and Official and Ceremonial functions of the President.

Program.—The Executive Residence staff provides for the operation of the Executive Residence. A staff of 36 domestic employees accomplishes general housekeeping, prepares and serves meals, greets visitors, and provides services as required in support of official and ceremonial functions. A staff of 33 tradespersons, including plumbers, carpenters, painters, on a single shift; electricians on a double shift; and operating engineers on a 24-hour basis, maintains and makes repairs, minor modifications, and improvements to the 132 rooms and the mechanical systems and provides support for official and ceremonial functions.

A staff of 12 specialized employees provides services necessary to the operation of the White House and official and ceremonial functions. This staff includes 4 florists, 4 curators and 4 calligraphers.

An administrative staff consists of the Chief Usher, 4 Assistant Ushers, 1 Executive Grounds Superintendent, 1 Operating Accountant, and 1 Administrative Officer. The staff is charged with management and administrative functions of the Executive Residence. This requires coordination with the Executive Office of the President, the National Park Service, the Military, the United States Secret Service, the General Services Administration and other agencies.

The equivalent of 4 full-time workyears of extra staff above the ceiling for full-time permanent positions are hired under personal services contract agreements ("Services by Agreement") to provide additional help as required for official and ceremonial functions.

CURRENT ACCOMPLISHMENTS

The White House is maintained as a home for the President and his family and serves as a facility for Official and Ceremonial functions. Several projects are currently underway, and substantial progress has been made in the past year.

Exterior Restoration Project.—The exterior of the Executive Residence is undergoing the final phases of an extensive restoration. This work, begun in April of 1980, has involved the removal of some 30 to 50 layers of paint from the exterior walls, repair of deteriorated stone substrates, and repainting with a modern coating system. The initial fiscal year 1988 appropriation for this work was $2.4 million, with additional appropriations of $1.2 million in fiscal year 1991 and $1.1 million in fiscal year 1992 to complete the project. To date, all paint removal has been accomplished. Stone restoration has been completed on both the North and South faces, with repainting completed on the entire North face and all but the east section of the South face. Repainting of the remaining portion of the South face is scheduled for this spring. Restoration of the East face has already begun and restoration of the west face is scheduled to begin in 1994.

Curatorial Conservation Project.—The Executive Residence has also recently begun Phase IV of a five phase curatorial conservation project. This project was initiated in fiscal year 1990, with the appropriation of $125,000. Funding of this project has continued in each succeeding year with the appropriation of $100,000. This project has enabled the conservation and repair of numerous objects in the White House collection. These items include nine Blue Room chairs, four tables, and a sofa; three Red Room chairs and a table; and 4 chairs, one table, and one sofa from the Green Room. Additionally, several objects from the Library, Ground Floor Corridor, President's Dining Room and Yellow Oval Room were conserved. The focus of this conservation effort has been on those items most urgently needing repair due to structural damage, and Phase IV, now underway, also includes gilding work on objects in the Blue Room and Cross Hall, as well as conservation of Lincoln era furniture and selected pieces of early 19th century furniture in the Green Room, State

Dining Room, Map Room, Vermeil Room and the Ground Floor Corridor. A conservation survey of selected items in White House storage is planned as well.

Exterior Window Project.—In fiscal year 1990, $800,000 was appropriated for replacement of the exterior windows at the Executive Residence. This project entails replacement of both the window glass and the wooden window components that were last restored during the 1948–52 Truman Renovation of the White House. Production of historically accurate window glass is a major component of this project, and two domestic glass manufacturers have been approved to produce sample panes. These sample panes, along with an existing foreign product, are currently being evaluated based on specific aesthetic and performance criteria.

Kitchen Renovation.—In fiscal year 1991, $500,000 was appropriated for renovation of the White House kitchens, and design work continues on the Main Kitchen area. The construction phasing of the main kitchen renovation is being carefully coordinated to mitigate the impact on the normal White House functions and the First Family. The new dishwashing system has been installed and is in operation, and the floors in both the Staff and Pastry kitchens have been replaced. New storage units have been installed and are in operation. The construction of the pastry kitchen has been completed and this kitchen was placed in operation in January of 1993.

Public Tours.—In addition to the ongoing project work, the White House is open to public view Tuesday through Saturday each week in addition to some national holidays, the evening Candlelight Tour at Christmas, the Easter Monday Egg Roll, and Garden Tours. During 1992, an average of 4,278 visitors toured the White House during each of the 249 open days. The Easter Egg Roll held on April 20, 1992, was participated in by 17,900 people.

MAJOR BUDGET CONSIDERATIONS

Funds are needed in fiscal year 1994 to continue the Curatorial Conservation Project. Phase V, the final phase of this project, will have repair of non-structural damage to furnishings as a major focus. This conservation will include the repair of scars in the finish or small losses of veneer or inlay, and these repairs are essential to prevent damage from becoming more severe. The fiscal year 1994 effort will also include repair to the gold-leafed surfaces of painting frames and some furniture. These surfaces become fragile as the underlying layer of plaster loses adherence due to age or wear. Should these plaster ornamentations be allowed to further deteriorate, conservation would require costly duplication of the decorative elements which have been lost. Early conservation and stabilization of loose, but not detached gilded surfaces, however, can prevent the need for this expensive work. The application of new gold-leaf to repaired or worn areas, as well as the toning to match older gilding on areas not needing attention, will also be performed during Phase V.

Additionally, funds are needed in fiscal year 1994 to perform much needed modernization of both of the Residence elevators. These elevators have provided reliable service beyond what many industry experts consider a reasonable life expectancy. Due to the age of the two elevators, however, many of the components are now obsolete, and replacement parts are becoming increasingly more difficult to obtain. It is proposed that solid state control equipment be installed to provide more efficient system response and energy consumption. It is also proposed that the elevators be brought up to all applicable code requirements.

The exterior lighting system at the Executive Residence is also urgently in need of replacement. The current system was installed in the 1970's. The company which manufactured the fixtures has since gone out of business and obtaining parts for the system is no longer possible. The 1500 watt quartz lamps required by the system also have a high energy demand. Through the installation of a new system the Executive Residence would be able to reduce both energy and maintenance costs, as well as assure that the system can be kept in good working order.

Funding is being requested to enhance the current internal automated systems at the Executive Residence. The proposed enhancements would include an improved automated inventory system which would provide inventory analysis, reorder points and cost analysis. The new system would also generate detailed cost itemizations of the various events held at the White House, and generate detailed billings for reimbursable goods and services. This project will involve the design, development, testing and implementation of a completely new series of application programs. Data conversion for the existing inventory will also be included.

AGENCY REQUEST—FISCAL YEAR 1994

Current programming problems can be resolved with increases as follows:

1. Funding is required for the unfunded quarter of the fiscal year 1993 pay raise occurring in fiscal year 1994 ..... +$40,000

2. Funding is required for regular personnel step increases and merit pay raises based on job performance and personnel evaluations ..... +125,000
3. Personal benefits costs have risen due to the increased costs associated with the Federal Employees Retirement System (FERS), as well as recent increases in the government's share of employee health insurance ..... +4,000
4. Funds are needed to cover the increases in pay rates for Service By Agreement Employees ..... +1,000
5. Utility costs at the Executive Residence continue to increase and cannot be absorbed ..... +11,000
6. Funding is again being requested to enhance the current internal automated systems at the Executive Residence to include an improved automated inventory system, detailed cost itemizations of official events, and detailed billings for reimbursable goods and services ..... +50,000
7. Funds are requested to cover an anticipated increase in premium pay for support to projects that require after hours and weekend participation by the regular staff. These projects include support to the ongoing rehabilitation projects as well as an anticipated increase in official and ceremonial functions of the Presidency ..... +22,000
8. Funds are needed to cover increased costs associated with a variety of services including routine elevator maintenance, dry cleaning, and curatorial cleaning of historic furnishings ..... +11,000
9. Costs associated with the purchase of routine supplies and materials have also increased. This would be across the board inflationary increases in all types of supplies and materials used within the Executive Residence ..... +18,000
10. An increase in funds is needed to purchase equipment including some specialized metal shop equipment, a replacement washing machine and dryer, replacement refrigerator and vacuum cleaners. Additionally, a 56 inch table cloth ironer is needed, to replace the one currently in use. The existing one is no longer reliable, and is not equipped with necessary safety features which are standard in the newer machines ..... +20,000
11. Additionally funds are needed to perform much needed modernization of the elevators within the Executive Residence ..... +235,000
12. Funds are also needed to replace the exterior lighting at the Executive Residence. The current system, installed approximately 20 years ago is now obsolete with replacement parts unavailable and poor energy efficiency ..... +150,000

The cost of these increases will be partially offset by the following reductions:

14. Funding for the traditional four year repair and refurbishing of the First Family living quarters does not recur in fiscal year 1994 ..... −50,000
15. Personnel reduction as part of the White House reorganization initiative ..... −275,000
16. A three percent administrative reduction has been taken in object classes 25.0 and 26.0 in accordance with the President's Executive Order of February 10, 1993 ..... −35,000

Net increase ..... +327,000

ANALYSIS OF ACTIVITIES

[Dollars in thousands]

	Fiscal year—			Increase (+) decrease (−) 1994 compared with 1993
	1992 actual	1993 estimate	1994 estimate	
Operating expenses	7,262	7,598	7,540	−58
Construction	1,100	.....	385	+385
Budget authority	8,362	7,598	7,925	+327

TOTAL PROGRAM

ID code		1992 actual	1993 estimate	1994 estimate
	Program by activities:			
00.01	Direct program	7,762	9,449	8,195
01.01	Reimbursable program	845	1,640	1,660
10.00	Total obligations	8,607	11,089	9,855
	Financing:			
21.00	Unobligated balance available start of year	−1,683	−2,281	−430
24.40	Unobligated balance available, end of year	2,281	430	160
25.00	Unobligated balance lapsing	2	.....	.....
39.00	Budget authority (gross)	9,207	9,238	9,585
	Budget authority:			
40.00	Current: Appropriation	8,362	7,598	7,925
68.00	Permanent: Spending authority from offsetting collections	845	1,640	1,660
	Relation of obligations to outlays:			
71.00	Total obligations	8,607	11,089	9,855
72.40	Obligations balance, start of year	1,004	1,212	1,324
74.40	Obligated balance, end of year	−1,212	−1,324	−1,111
77.00	Adjustments in expired accounts	−17	.....	.....
87.00	Outlays (gross)	8,382	10,977	10,068
	Adjustments to budget authority and outlays: Deductions for offsetting collections:			
88.00	Federal funds	−326	−1,370	−1,390
88.40	Non-Federal sources	−519	−270	−270
88.90	Total, offsetting collections	−845	−1,640	−1,660
89.00	Budget authority (net)	8,362	7,598	7,925
90.00	Outlays (net)	7,537	9,337	8,408
	Direct obligations:			
	Personnel compensation:			
11.1	Full-time permanent	3,793	4,143	4,029
11.5	Other personnel compensation	845	1,111	1,162
11.9	Total, personnel compensation	4,638	5,254	5,191
	Other:			
12.1	Personnel benefits: civilian	720	761	740
21.0	Travel and transportation of persons	6	9	9
23.2	Communications, utilities, rent	367	335	346
25.0	Other services	647	2,306	1,108
26.0	Supplies and materials	1,173	688	685
31.0	Equipment	211	96	116
99.0	Subtotal, direct obligations	7,762	9,449	8,195
	Reimbursable obligations:			
11.5	Other personnel compensation	134	144	145
23.2	Communications, utilities, rent	305	464	465
24.0	Printing and reproduction	28	82	85
25.0	Other services	160	312	325
26.0	Supplies and materials	218	638	640
99.0	Subtotal, reimbursable obligations	845	1,640	1,660

TOTAL PROGRAM—Continued

ID code		1992 actual	1993 estimate	1994 estimate
99.9	Total obligations	8,607	11,089	9,855
	Total compensable workyears:			
	Full-time equivalent employment	93	97	89
	Full-time equivalent of overtime and holiday hours	17	16	16
	Reimbursable program:			
	Full-time equivalent employment			
	Full-time equivalent of overtime and holiday hours	2	3	3

SALARIES AND EXPENSES—ONLY

ID code		1992 actual	1993 estimate	1994 estimate
	Program by activities:			
00.01	Direct program	7,260	7,598	7,540
01.01	Reimbursable program	845	1,640	1,660
10.00	Total obligations	8,105	9,238	9,200
	Financing:			
21.00	Unobligated balance available start of year			
24.40	Unobligated balance available, end of year			
25.00	Unobligated balance lapsing	2		
39.00	Budget authority (gross)	8,107	9,238	9,200
	Budget authority:			
40.00	Current: Appropriation	7,262	7,598	7,540
68.00	Permanent: Spending authority from offsetting collections	845	1,640	1,660
	Relation of obligations to outlays:			
71.00	Total obligations	8,105	9,238	9,200
72.40	Obligations balance, start of year	739	995	988
74.40	Obligated balance, end of year	−995	−988	−981
77.00	Adjustments in expired accounts	(17)		
87.00	Outlays (gross)	7,832	9,245	9,207
	Adjustments to budget authority and outlays: Deductions for offsetting collections:			
88.00	Federal funds	−326	−1,370	−1,390
88.40	Non-Federal sources	−519	−270	−270
88.90	Total, offsetting collections	−845	−1,640	−1,660
89.00	Budget authority (net)	7,262	7,598	7,540
90.00	Outlays (net)	6,987	7,605	7,547
	Direct obligations:			
	Personnel compensation:			
11.1	Full-time permanent	3,793	4,143	4,029
11.5	Other personnel compensation	845	1,111	1,162
11.9	Total, personnel compensation	4,638	5,254	5,191
	Other:			
12.1	Personnel benefits: civilian	720	761	740
21.0	Travel and transportation of persons	6	9	9
22.0	Travel and transportation of things			

SALARIES AND EXPENSES—ONLY—Continued

ID code		1992 actual	1993 estimate	1994 estimate
23.2	Communications, utilities, rent	367	335	346
25.0	Other services	145	455	453
26.0	Supplies and materials	1,173	688	685
31.0	Equipment	211	96	116
99.0	Subtotal, direct obligations	7,260	7,598	7,540
	Reimbursable obligations:			
11.5	Other personnel compensation	134	144	145
23.2	Communications, utilities, rent	305	464	465
24.0	Printing and reproduction	28	82	85
25.0	Other services	160	312	325
26.0	Supplies and materials	218	638	640
31.0	Equipment	.....	.....	.....
99.0	Subtotal, reimbursable obligations	845	1,640	1,660
99.9	Total obligations	8,105	9,238	9,200
	Total number of full-time permanent positions	93	97	89
	Total compensable workyears	93	97	89
	Full-time equivalent workyears	.....	.....	.....
	Full-time equivalent of overtime and holiday hours	17	16	16
	Reimbursable:			
	Full-time equivalent employment	.....	.....	.....
	Full-time equivalent of overtime	2	3	3

MULTIYEAR CONSTRUCTION

ID code		1992 actual	1993 estimate	1994 estimate
	Program by activities:			
00.01	Direct program	502	1,851	655
10.00	Total obligations	502	1,851	655
	Financing:			
21.00	Unobligated balance available, start of year	−1,683	−2,281	−430
24.40	Unobligated balance available, end of year	2,281	430	160
25.00	Unobligated balance lapsing	.....	.....	.....
39.00	Budget authority (gross)	1,100	.....	385
	Budget authority:			
40.00	Current: Appropriation	1,100	.....	385
68.00	Permanent: Spending authority from offsetting collections	.....	.....	.....
	Relation of obligations to outlays:			
71.00	Total obligations	502	1,851	655
72.40	Obligated balance, start of year	265	217	336
74.40	Obligated balance, end of year	−217	−336	−130
77.00	Adjustments in expired accounts	.....	.....	.....
90.00	Total outlays	550	1,732	861
	Adjustments to budget authority and outlays: Deductions for offsetting collections:			
88.00	Federal funds	.....	.....	.....
88.40	Non-Federal sources	.....	.....	.....

MULTIYEAR CONSTRUCTION—Continued

ID code		1992 actual	1993 estimate	1994 estimate
88.90	Total, offsetting collections	.....	.....	.....
89.00	Budget authority (net)	1,100	.....	385
90.00	Outlays (net)	550	1,732	861
	Direct obligations:			
25.0	Other services	502	1,851	655
99.0	Subtotal, direct obligations	502	1,851	655

OFFICIAL AND CEREMONIAL EVENTS

Senator DECONCINI. I want to ask you a question on the account for official and ceremonial events.

Mr. STANTON. Yes, sir.

Senator DECONCINI. There is $262,000 in that account for 1993. Is that account exhausted? Or do you know?

Mr. STANTON. That account will be exhausted for fiscal year 1993.

Senator DECONCINI. When will it be exhausted, do you know?

Mr. STANTON. No; we do not, based on the plans and activities for the balance of fiscal year 1993.

Senator DECONCINI. Is there money in it today?

Mr. STANTON. I believe there are some funds in it today. I would have to confer with the Chief Usher's Office specifically on that.

Senator DECONCINI. And would that fund be used for purchasing refreshments for some group that the White House or the President might entertain in the rose garden or someplace there?

Mr. STANTON. Those appropriated funds are made available in support of the Chief Executive in carrying out his responsibilities. It allows for refreshments on hosting of official functions, such as congressional receptions or signing ceremonies or bills into law, or——

Senator DECONCINI. What about a basketball team or track team being honored by the President because they won a national championship? Would that be appropriate?

Mr. STANTON. That would be appropriate, yes, sir.

Senator DECONCINI. Thank you.

NATIONAL PARK SERVICE SUPPORT OF THE WHITE HOUSE

During last year's appropriation hearing, Mr. Director, I asked how many Park Service employees on the Park Service payroll were actually devoted to the White House. The answer you provided for the record was 59 FTE's, including yourself.

Will any reduction in the number of Park Service positions devoted to the White House take place in fiscal year 1994? If so, how many?

Mr. STANTON. We are in the process of reexamining our budget and staffing pattern in the National Park Service appropriation for the White House, which is inclusive of the White House property as well as some support activities. We would be more than happy to furnish that analysis to you.

[The information follows:]

In accordance with the President's recent Executive Orders, the National Park Service is required to take an administrative reduction and an FTE reduction in the fiscal year 1994 program. The dollar impact of these two reductions on the National Park Service operation at the White House is $70,000. The National Park Service has also proposed a 7 percent increase for each park unit, and this increase is applied against the reduced base. The proposed increase is to provide funding to all park operating programs. The funding proposed for the White House as part of this initiative is $198,000. This funding is needed to cover maintenance costs such as turf repair and plant replacement, increased utility costs, and materials to keep the park maintained at the proper standard. Present operational funding levels are insufficient to deal with heavy visitation and an increase in the number of public events. In recent years, operational funds have been eroded by pay cost absorptions, across the board reductions and increases in the cost of rent, utilities, supplies and materials. Because of the proposed funding increase, there is no anticipated decrease in the total number of positions.

Senator DECONCINI. OK. If there are no reductions, I would like to know why not.

Mr. STANTON. Yes, sir.

Senator DECONCINI. And of course, if there's an increase.

It seems to me that the Park Service support of the White House is pretty substantial. Why doesn't the budget of the Residence include the salaries of these employees, instead of the Park Service budget?

Mr. STANTON. The White House and the grounds, sir, are a unit of the National Park System. Consequently, we are responsible for preservation of the grounds and of the facilities on the grounds, as well as the White House proper. Therefore, it has been determined that it is appropriate for the National Park Service to fund through its regular budget the preservation and visitor services activities.

Senator DECONCINI. Can you break down and identify for the committee any items that are included in the Park Service 1994 budget which are to support the Residence or make improvements to it?

Mr. STANTON. We will be more than happy to do that, Mr. Chairman.

[The information follows:]

The National Park Service budget for fiscal year 1994 requests funding in the amount of $3,010,000 with a total of 62 FTE for support of the White House as a unit of the National Park System. The 62 FTE represent total FTE ceiling for this unit. In recent years, however, total usage has been 59 to 60 FTE due to funding constraints. A total of 23 FTE support the grounds maintenance activity, with 14 additional FTE providing technical support and administrative services through the office of the Associate Regional Director for White House Liaison. The National Park Service also maintains an off-site greenhouse with 12 FTE, providing seasonal displays for the White House gardens and propagation of seedlings of the historically significant trees. The National Park Service has a total of 13 FTE assigned to the Executive Support Facility. These staff members provide for the care of the White House museum collection while in storage, as well as for utilitarian items and items used for special events. This unit also provides transportation of objects between the White House, the storage facility, and the greenhouse. Additionally, the regional office provides routine administrative support similar to that provided to all other parks in the National Capital Region.

National Capital Parks-Central has funding totalling approximately $890,000 included in their budget for support to the White House and President's Park. This park unit has a centralized construction and major maintenance branch and is called upon to provide plumbing, electrical, carpentry and similar services to the parks throughout the National Capital Region, including the White House and President's Park.

The fiscal year 1994 proposed budget also includes a request for the final phase of a construction project involving the renovation of White House utilities. Funding

requested in fiscal year 1994 is $4,200,000. Funding provided to date totals $9,044,000. This project involves replacement of all major mechanical components of the heating and air conditioning system within the White House, including coils, fan motors, and related piping. Reclamation of air exhausted from the heating and cooling systems, improved ventilation, and the installation of remote emergency shutoff devices for all utility systems with tie-in to the new computerized system will also be accomplished. Work will include the rehabilitation of the fire protection and suppression system. New temperature and humidity controls capable of monitoring and controlling the HVAC and fire alarm systems will also be installed.

The existing mechanical and associated control systems were installed during the 1948 renovation of the White House. The major system components have deteriorated and changes have occurred in the volume and use of the facilities they serve. The control systems require extensive manual control and constant maintenance to assure minimally acceptable conditions within the structure. The age of the system requires that most replacement parts be custom fabricated with resultant high cost and time delay. The systems are inefficient and significant energy savings are anticipated through the use of the most current HVAC technology.

Senator DECONCINI. How do you make decisions on what to request in the budget of the Residence, versus the Park Service budget, for projects that benefit the White House?

Mr. STANTON. With respect to the White House proper, the Executive Residence budget provides the basic needs for the First Family, as well as to assist and support the First Family, and the President in particular, in carrying out his executive responsibilities as relates to hosting heads of state, to conduct formal functions and ceremonies. Those clearly fall within the responsibilities of this appropriation, as distinguished from the appropriation of the National Park Service.

Senator DECONCINI. I don't have any problem with $262,000 for official ceremonial events. It just seems to me that it is not for the Park Service to be funding that. It ought to be funded under——

Mr. STANTON. I do need to make a distinction, Mr. Chairman. It is the Executive Residence, not the National Park Service.

Senator DECONCINI. Oh, it is the Executive Residence. It should be.

Mr. STANTON. Yes.

Senator DECONCINI. Then my question to you—and I'm not meaning this as an accusation or a criticism—I have some problems as to what is Park Service responsibility, because those grounds are under your jurisdiction to maintain.

Mr. STANTON. That is correct.

Senator DECONCINI. And what is really White House Residence that you have a responsibility to operate and maintain, and what isn't.

My question is, would you have any objections in displaying in future budgets—and maybe this year—requesting the full amount of support provided by the Park Service in its budget for the White House Residence?

Mr. STANTON. We have no objection. We would be more than pleased to provide that detail.

Senator DECONCINI. Could you supply that for us?

Mr. STANTON. Yes, sir.

Senator DECONCINI. OK.

[The information follows:]

The information provided thus far includes all funding in the National Park Service budget for the White House. The National Park Service also has a park unit known as President's Park which consists of park areas outside the White House

gates including Lafayette Park and the Ellipse. Funding requested for this unit in fiscal year 1994 totals $1,723,000. This park unit does not provide direct support to the White House, however, it does provide services to visitors to the White House, including interpretive talks and printed materials. In fiscal year 1994, this funding will be used to operate two new facilities, in addition to the existing park areas. The White House Visitor Center, to be located in the Department of Commerce Building, and the Ellipse Visitor Pavilion are scheduled to become operational in fiscal year 1994. The fiscal year 1994 budget includes costs associated with maintenance, custodial support, utility costs and exhibit repair as well as funding for staff coverage of the information desk and other visitor services. These facilities will be operated daily with hours extending beyond the normal tour schedule. The visitor center will move the ticket distribution point for the White House indoors and will feature a number of exhibits on the White House and its history. The Ellipse Visitor Pavilion will house an information desk, comfort stations and concession facilities.

REQUESTED INCREASES

Senator DECONCINI. Your fiscal year 1994 budget contains requested increases of $455,000. Included in that amount is $150,000 to upgrade the exterior lighting system of the White House; $235,000 for modernization of elevators; $50,000 for enhancing supply computerized inventory and billing system; and $20,000 for equipment.

Can you provide the subcommittee with a prioritized list? I know you want them all, and it is a relatively small amount of money, but we are going to have one tough time. If you had to prioritize these into what might be put off until next year, would you please submit that to us? I'm not telling you that's what we're going to do, but I have to be honest with you. We have to look at all these things.

Mr. STANTON. We would be pleased to do that, Mr. Chairman.

[The information follows:]

FUNDING PRIORITIES

The Executive Residence requested increases fall into three basic categories: fixed costs, inflationary costs, and project related costs.

Fixed costs ($191,000)

Unfunded quarter of the fiscal year 1993 pay raise occurring in fiscal year 1994, step and merit pay raises, personnel benefits and premium pay.

Inflationary costs ($41,000)

Utility costs, service-by-agreement contracts, maintenance, supplies and materials.

Project-related costs ($455,000)

Elevator renovation project	$235,000
Exterior lighting project	$150,000
Automated inventory system	$50,000
Acquisition of equipment	$20,000

The replacement of some equipment could be deferred, but if replacement later became imperative, other adjustments would have to be made to fund the purchase.

EXTERIOR LIGHTING PROJECT

Senator DECONCINI. I see from your budget justification that the lighting system is over 20 years old, and the company that provided the original system went out of business. Your justification also states that the current system consumes considerable electricity.

How many lamps are currently included in the exterior lighting, and how many will be replaced? You can supply that for the record.

Mr. STANTON. We certainly will.

[The information follows:]

The exterior lighting system currently in use at the Executive Residence at the White House was designed and installed in early 1971. The system involves 56 lights of varying sizes and intensity designed to illuminate the exterior of the building. The lighting system is controlled by a manual dimmer used to adjust the lighting to achieve the desired effect on the building. The manufacturer of this unique system has gone out of business making replacement parts for the dimmer unit and fixtures impossible to get. Replacement bulbs must now be made individually at an extremely high cost to the government.

JOGGING TRACK

Senator DECONCINI. Last, the jogging track, Mr. Director. I know that the White House has been soliciting funds for the installation of a jogging track, and quite frankly, I wouldn't hesitate to spend public funds for it if the President made that request.

What will be the cost of this track? Where will it be located, and how much money has been raised to date, do you know?

Mr. STANTON. Yes; approximately $50,000 has been raised, Mr. Chairman, from various individuals and organizations.

The track is completed. It has been fully funded by private donations. It is located as a portion, if you will, of the existing circular drive of the south lawn of the White House.

The actual cost of the trail was $30,000. Again, all the costs were borne by donated funds.

I am pleased to say that the trail, Mr. Chairman, was constructed with recyclable materials, old tires from which the steel had been extracted and the rubber pulverized and made into a mixture. We were very pleased with the use of recycled materials for that particular trail.

Senator DECONCINI. And no appropriated funds were used?

Mr. STANTON. No, sir.

Senator DECONCINI. And you have a surplus of $20,000?

Mr. STANTON. Yes.

Senator DECONCINI. What are you going to do with that?

Mr. STANTON. The donors have agreed that those funds can be held—indeed, invested—by the National Park Foundation, which has been authorized by Congress to assist the National Park Service in carrying out such activities. Those funds will be drawn upon for any repair or cyclic maintenance that may be required over the years in the maintenance of the trail.

Senator DECONCINI. Thank you for a job well done.

Mr. STANTON. Thank you kindly, sir.

Senator DECONCINI. I presume the President is using that instead of running down Pennsylvania and the Mall.

Mr. STANTON. Yes, he is. He is using the trail and other areas, sir.

SUBMITTED QUESTIONS

Senator DECONCINI. Thank you, Mr. Director. I have no further questions. We will submit a few additional details to you.

Mr. STANTON. Thank you, Mr. Chairman.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR DeCONCINI

Budget Overview

Your fiscal year 1994 budget includes a reduction of 8 FTE's and $275,000 from the fiscal year 1993 enacted level for these positions. Your justification states that these personnel reductions are due to a reorganization of the White House and you have proposed to eliminate 1 calligrapher; 1 florist; and one curator as well a 5 domestic staff positions.

Question. Can you explain how the decision was made to eliminate the positions proposed in your budget and identify the specific domestic staff positions which will be eliminated?

Answer. The Executive Residence staff was thoroughly evaluated by the Chief Usher and the reductions were made to comply with the Administration's desire to look at the operation of the Executive Residence with an eye towards reducing the size of the staff. The other positions impacted are 2 doormen, 1 maid, 1 kitchen steward, and 1 butler.

Question. Have any of these positions been eliminated already?

Answer. Vacated positions slated to be abolished will not be filled, the other reductions will be effective by October 1, 1993.

Question. The President's Executive Order on Federal personnel reductions required each agency to take at least 10 percent of the positions eliminated from SES, GS-15 and the GS-14 levels. Can you provide us with specific information to demonstrate that your personnel reductions will be in full compliance with the President's Executive Order?

Answer. The President's Executive Order on Federal personnel reductions required agencies with over 100 employees to implement the specified reductions. The Executive Residence has a personnel ceiling of 97 and therefore was not subject to the provisions of this Order. Nevertheless, the Executive Residence eliminated 8 full-time permanent positions from its rolls.

Program Increases

Question. Your fiscal year 1994 budget contains requested increases of $455,000. Included in that amount is $150,000 to upgrade the exterior lighting system at the White House; $235,000 for modernization of the elevators within the Residence; $50,000 for enhancement of the supply computerized inventory and billing system; and $20,000 for equipment. Can you provide the Subcommittee with a prioritized list of funding for these projects?

Answer. These projects in priority order are as follows: (1) elevator rehabilitation project; (2) lighting system upgrade; (3) computerized inventory and billing system; (4) equipment needs.

Question. I understand that the 2 elevators at the Residence are old and replacement parts are difficult to acquire. How old are these elevators and what safety codes, if any, is the White House violating due to the condition of the elevators?

Answer. The elevator systems in the Executive Residence were installed during the 1952 renovation of the White House. In the 1970's, the elevator industry developed new control equipment that is safer, environmentally sound, and has much lower maintenance costs. The current elevator systems undergo daily safety inspections, but do not comply with modern standards or utilize available safety technology.

Question. Will the amount requested for the elevators fully cover the costs to replace the old elevators with new ones?

Answer. If funding were made available, the elevators would be renovated to equip them new mechanical components and a new control unit with integrated safety mechanisms. The funds requested would be sufficient to complete the elevator project.

Question. Can you tell us what savings you expect to achieve in utility bills as a result of the exterior lighting system?

Answer. Maintenance for the new lighting system is projected to drop from $6,000 to $2,000 annually. Additionally, savings on utility costs should be achieved due to the elimination of the manual dimmer systems and the reduction of approximately 10 lighting fixtures.

Question. How long will it take to complete the replacement process?

Answer. The majority of time required, approximately 18 months, will involve evaluation of proposals, manufacture of components, and testing of equipment on site prior to installation. Once the testing is complete and the proposed system is accepted, the new lighting system will take 4 to 5 weeks to fully install.

Questions. With reference to the $20,000 increase in the equipment budget, your justification states that you intend to purchase specialized metal shop equipment, a washing machine and a dryer, a refrigerator, vacuum cleaner, and 56 inch table cloth ironer. Can you explain why your current equipment budget of $96,000 is insufficient to cover the purchase of these items?

Answer. The equipment budget consists not only of typical equipment items, but also obligations for acquisition of furnishings including furniture, fittings, fixtures, and items to be included in the Fine Arts Collection. In FY 1994, $45,000 is programmed for items falling into the "acquisition of furnishings" category. The remaining $51,000 is not sufficient to cover all the pressing equipment needs of the Executive Residence in FY-94.

Question. Can you please provide a specific breakdown of costs for each of the items to be purchased?

Answer. The following list constitutes the planned equipment and furnishing acquisitions in FY-94:

Fax machine	$3,000
Typewriters	$6,000
Tour mats	$8,000
Dollies	$3,000
Drill press	$7,000
Air conditioners	$10,000
Welder	$11,000
Power jack	$5,000
Portable lights	$10,000
Wood lath	$8,000
Subtotal	$71,000
Drapery fabric	$20,000
Upholstery fabric	$17,000
Fine arts collection	$8,000
Subtotal	$45,000
Total	$116,000

Curatorial Conservation Project

Question. Your budget also includes $100,000 to implement the final phase of the Curatorial Conservation Project. Your justification states that this phase of the project will focus on the repair of non-structural damage to furnishings and will include repair of the gold leaf surfaces of painting frames and some furniture. Have any of the items housed in White House storage areas been repaired and if so, can you please give us an update on these items? If not, can you explain to us your plan to repair some of the items in storage?

Answer. The items in the White House Fine Arts Collection rotate periodically from use in the Executive Residence and storage. Items in storage that have the potential of being utilized in the Executive Residence have been evaluated and in many cases repairs have been completed. Some of the items that have been conserved include 9 Blue Room chairs, 4 tables and a sofa; 3 Red Room chairs and a table; and 4 chairs, 1 table and 1 sofa from the Green Room. Additionally, several items in the Library, Ground Floor Corridor, President's Dining Room and Yellow Oval Room have been conserved. The earlier stages of this conservation effort focussed on those items most urgently needing repair due to structural damage. The later phases include gilding work on objects in the Blue Room and Cross Hall, as well as conservation of Lincoln era furniture and selected pieces of early 19th century furniture in the Green Room, State Dining Room, Map Room, Vermeil Room and the Ground Floor Corridor.

First Family Living Quarters

Question. In fiscal year 1993, we provided the Residence with $50,000 for the traditional 4-year repair and refurbishing of the First Family living quarters. Can you give us a status report on this project, tell us how much has been spent to date, and specifically what repair and refurbishing projects have or will take place?

Answer. The $50,000 for the repair and refurbishment of the First Family living quarters has been expended. The funds were used for carpentry supplies, painting and wallpaper, electrical and plumbing fixtures, as well as premium pay for the craftsmen involved.

Question. Can you tell us if any of the $50,000 was used to pay for the services of a private decorator? If so, to whom and for how much?

Answer. None of the funds were used to pay a private decorator.

QUESTIONS SUBMITTED BY SENATOR BOND

Staffing Reductions

Question. The budget for the Executive Residence calls for the elimination of 8 full-time permanent positions because of a reorganization. Could you describe the reorganization? Who will perform these duties?

Answer. The Executive Residence staff was thoroughly evaluated by the Chief Usher and the reductions were made to comply with the Administration's desire to reduce Federal civilian employment. The duties of the positions eliminated will be shared among the remaining staff.

Question. How will the reduction be achieved? Attrition? RIF?

Answer. The reductions will be made through a combination of eliminating vacant positions, attrition, and one involuntary separation.

Question. If a RIF is necessary, what will the cost be?

Answer. Only one position will require an involuntary separation and the cost to the Executive Residence will be minimal.

Question. Will any savings be seen in FY 1993?

Answer. Savings achieved in FY 1993 by not filling vacant positions will be used to offset lump sum annual leave payment to employees who are retiring or otherwise leaving the Federal service. Other actions will not take place until very late in the fiscal year limiting their impact.

Jogging Track

Question. The media used considerable ink and air time early in the year with regard to the construction of the jogging track on the grounds. Could you give us a status report?

Answer. The jogging track made from recycled rubber products is completed and in use.

Question. Where is the funding coming from?

Answer. The funds for the construction and maintenance of the jogging track were all donated by the private sector.

Exterior Restoration Project

Question. The Exterior Restoration Project seems to be proceeding at an acceptable rate. Could you give the Subcommittee an idea of the completion date?

Answer. The Exterior Restoration Project is proceeding at a good pace and the work continues to be of the highest quality. The final phase of painting has been completed on the south facade leaving only the east and west facades requiring restoration. The work should be completed in FY-95.

Curatorial Conservation Project

Question. The Curatorial Conservation Project also is in full swing. I note that the conservation plan includes a partial inventory of selected items in storage. Do you have any estimate of what you might find?

Answer. The items in the White House Fine Arts Collection rotate periodically from use in the Executive Residence and storage. Items in storage that have the potential of being utilized in the Executive Residence have been evaluated and in many cases repairs have been completed.

Elevator Replacement Project

Question. Elevator replacement is often a slow and tedious job. Do you have an estimate of how long this project will take?

Answer. Each of the two elevators will be scheduled separately in order to keep one elevator in service at all times. The elevator renovation will involve the provision of new mechanical components and a new control unit with integrated safety mechanisms. The work will be scheduled to minimize the impact on the First Family and the day-to-day business of the Executive Residence. It is anticipated that the project will take approximately 18 months to complete, including the time necessary for evaluation of proposals.

SUBCOMMITTEE RECESS

Senator DECONCINI. The subcommittee will stand in recess until 10 a.m., May 6, when the subcommittee will take testimony from the Department of the Treasury.

[Whereupon, at 12:09 p.m., Tuesday, May 4, the subcommittee was recessed, to reconvene at 10:09 a.m., Thursday, May 6.]

TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1994

THURSDAY, MAY 6, 1993

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:09 a.m., in room SD–116, Dirksen Senate Office Building, Hon. Dennis DeConcini (chairman) presiding.

Present: Senators DeConcini, Kerrey, Bond, and D'Amato.

DEPARTMENT OF THE TREASURY

OFFICE OF THE SECRETARY

STATEMENT OF HON. LLOYD BENTSEN, SECRETARY OF THE TREASURY

ACCOMPANIED BY:

JOHN P. SIMPSON, DEPUTY ASSISTANT SECRETARY, REGULATORY, TARIFF AND TRADE ENFORCEMENT

EDWIN A. VERBURG, ACTING DEPUTY ASSISTANT SECRETARY, FINANCE AND MANAGEMENT

OPENING REMARKS

Senator DECONCINI. The Subcommittee on Treasury, Postal Service, and General Government will come to order.

Today the subcommittee will take testimony on the fiscal year 1994 budget of the Office of the Secretary of the Treasury. We are pleased to have as our lead witness, of course, Secretary Lloyd Bentsen.

Welcome, Mr. Secretary.

Secretary BENTSEN. Thank you, Mr. Chairman.

Senator DECONCINI. We are very proud of you and the credibility and respect that you bring to this office, not only with your colleagues here on both sides of the Hill, but in the general business area and the country as well. We look forward to working with you. As you know, Mr. Secretary, we have had a long relationship with past Secretaries, and although we've had some disagreements, we have always been able to work things out. Unfortunately money is a problem, as you know, and our allocations to this committee are always up for grabs. We don't know what they're going to be yet, but we take your recommendations very seriously and will work with you.

Your fiscal year 1994 budget for the appropriated accounts of the Department of the Treasury which are under the subcommittee here total $10.3 billion and 154,077 full-time equivalent positions. This amount reflects an increase of $214,000 above the fiscal year 1993 enacted level, and a reduction of 350 FTE's.

The largest increase in funding is $288 million for the Internal Revenue Service and 102 FTE's. With the exception of the IRS, we notice that most of the bureaus under your control are proposed to get reductions, or less than the current service funding level for fiscal year 1994.

As you know, Mr. Secretary, I have a longstanding interest particularly in the enforcement areas of your Department, but other ones as well. I can tell you that this is disturbing to me, but maybe you have some answers and maybe there are some ways to not jeopardize the Law Enforcement Training Center or the Customs Service or some of the other very important law enforcement areas. I will proceed with some questions later on that. In view of the President's commitment to put 100,000 more law enforcement officers on the streets, I wonder how the administration has come to the conclusion that they should cut Federal law enforcement. I realize that it's across the board, that everybody is supposed to sacrifice, but I hope that this might be reconsidered.

In the past this subcommittee has been generous in its support of the funding requests of the Internal Revenue Service. The IRS budget request for fiscal year 1994 represents 65 percent of the total domestic discretionary funding of this subcommittee in the President's budget. While we try to do everything we can to honor that request, our 602(b) allocations are getting smaller and it is more difficult every year.

So I look forward to your statement, Mr. Secretary.

I yield to Senator Bond for any opening statement, then you may summarize or proceed however you like, sir.

Senator Bond.

Senator BOND. Thank you, Mr. Chairman. It is a pleasure to welcome our distinguished witness and former colleague, Secretary Bentsen.

As we have noted, the Secretary brings a great deal of skill and knowledge of this institution and of Government generally that I know will be helpful to him as he undertakes the duties of his office. He shepherded many legislative proposals through the Senate. I am sure that those skills will come in handy as he navigates the waters in the executive branch.

I had the opportunity to talk with the Secretary on several other of my committee assignments, but I look forward to his testimony and perhaps discussing a wide range of issues within his jurisdiction today.

Senator DECONCINI. Mr. Secretary, please proceed.

STATEMENT OF SECRETARY BENTSEN

Secretary BENTSEN. Mr. Chairman, thank you, and Senator Bond, thank you both for your very generous statements.

Let me say before I get into my formal statement that just as you have noted, Mr. Chairman, this committee has been very supportive of the Treasury and of law enforcement in particular, for which

we are quite appreciative. I think your support for the Bureau of Alcohol, Tobacco and Firearms has enabled us to develop one of the world's most respected teams of arson and bomb investigators and forensic analysts. One member of that team, an alert ATF agent, helped crack that case at the World Trade Center. Every day we have these brave agents confronting the challenge of gang violence in our cities and targeting violent career criminals and armed narcotics traffickers.

Treasury law enforcement has a long tradition of protecting the American public and upholding this Nation's laws. Our agents routinely risk their lives, and ATF is a very important part of that.

I am grateful to you for your continued support during the tragedy which unfolded in Waco. ATF suffered a heavy loss in the face of withering fire that came through the walls of that compound. Anyone who has seen those news clips on TV knows the courage that was shown by those agents at that time in the face of that kind of fire. We are all deeply saddened by the injuries and the loss of life of those courageous agents, and the loss of life in the compound was shocking to us all.

As you know, the President has asked the Departments of Treasury and Justice to conduct a joint investigation of the entire episode to help prevent a repeat of this tragedy. The Treasury Department will focus on events up to February 28, 1993.

Our investigation of this tragedy is underway under the overall supervision of Assistant Secretary Ronald K. Noble. To ensure that the investigation is comprehensive and impartial, I have named three individuals of national prominence to guide and review the investigation and provide needed independence. Those three individuals are: Edwin Guthman, a professor of journalism, winner of the Pulitzer Prize in journalism and former press secretary to Attorney General and later Senator Robert Kennedy; Henry Ruth, a distinguished attorney, with 15 years of service in the Department of Justice and who later was the chief Watergate prosecutor. He has served on numerous commissions, including the Special Investigative Commission which examined the law enforcement actions leading to the MOVE situation in Philadelphia; and Willie Williams, chief of the Los Angeles Police Department, whose career in law enforcement extends back to 1964. He is credited with significant improvements in police and community relations in the city of Los Angeles.

Mr. Geoffrey Moulton, Jr. is the full-time director of this investigation. He is leaving private practice specifically to become director of this investigation. He has served as law clerk to Chief Justice William Rehnquist, and served as an Assistant U.S. Attorney and Special Counsel in the Department of Justice.

I expect a thorough, objective, and uncompromising inquiry to find out what happened and why. I want them to cooperate fully and completely with all congressional inquiries to ensure there is a full review of all actions, and that we are fully accountable to the Congress and the American people.

FISCAL YEAR 1994 TREASURY BUDGET REQUEST

Now, Mr. Chairman, to get on with the part of this dealing with the request for fiscal year 1994 for operating funds, the Treasury

Department is at the center of our Government. Each year we collect well over $1 trillion in revenues, and we raise required capital through bond sales. With a budget of just over $10 billion, we deliver an amazing return on your investment.

The list of our responsibilities is long and embraces the full range of domestic and international economic policy and operations. These responsibilities are detailed in my written submission.

As you noted, we are asking for $10.3 billion in fiscal year 1994. That's up 1.8 percent from last year. That's less than inflation.

Now, some of the budget crowd calls that negative real growth. I call it doing a better job and more complicated job more efficiently.

If you set aside the IRS budget, the budget for the rest of the Treasury Department is coming down by over $100 million, or about 3 percent, even before you calculate inflation. Not only that, but when you net things out, throughout the entire Treasury Department there will be the equivalent of nearly 500 fewer employees. That's after we add the equivalent of 2,000 staff-years over at the IRS.

We are doing our part in meeting President Clinton's goal of eliminating 100,000 positions throughout the Federal Government and in cutting administrative costs by 14 percent through fiscal year 1997. It is not going to be an easy task.

I would like to highlight a few of our major objectives because of their importance to making Government more efficient and user-friendly.

First, we want to accelerate the critical job of modernizing the Internal Revenue Service information systems. That's an investment for the future, and a real example of how we can reinvent Government to better serve the public. We are requesting an additional $186 million for this purpose, but we are also proposing substantive reductions of $157 million for modernization investments that have already been made. The increase that we're seeking for the tax systems modernization project is part of the IRS total information systems resource appropriation, which we propose to be maintained at essentially the same level as last year. That reflects major tradeoffs that maintain the momentum of this critical modernization effort.

I particularly want you to know that our budget incorporates $55.3 million in productivity gains that will result from past or proposed investments in our Tax Systems Modernization Program.

Second, we are proposing adding $150 million and 2,000 staff-years to the IRS to improve our ability to assess and collect the proper amounts of taxes owed. We are going to be paying particular attention to foreign-held corporations operating in the United States. I have discussed that issue with a number of foreign leaders to ease their concern about our goals. I have reinforced to them that what we are talking about is just enforcing the laws that are on the books now; seeing to it that, when firms do arm's-length pricing, we aren't getting the short end of the stick.

Third, we will be following through on our commitment to increase the Customs Service inspector staffing along the southwest border of which you, Mr. Chairman, have a very intimate knowl-

edge. This will help cut down on processing delays and better allow Customs to meet the demands of expanded trade with Mexico.

Finally, we are going to be addressing important financial management issues in the Department. We make payments to over 100 million citizens each year. At Treasury we write over 435 million checks a year, and make 371 million deposits with electronic funds transfers. It costs us $0.36 to write and mail a check, but less than $0.06 to do an electronic transfer. The more we can shift our business to electronic transfers, obviously, the more money we will save.

Mr. Chairman and members of the subcommittee, I think you will agree that we have offered you a budget that meets the challenge of downsizing the Government while also responding to our increased responsibilities and the need to provide more efficient service.

I would be glad to take questions, Mr. Chairman.

PREPARED STATEMENT

Senator DECONCINI. Thank you very much, Secretary Bentsen. We have your complete statement and it will be made part of the record.

[The statement follows:]

STATEMENT OF LLOYD BENTSEN

Mr. Chairman and Members of the Subcommittee: Thank you for the opportunity to appear before the Subcommittee to discuss the Treasury Department's Fiscal 1994 request for operating funds.

The Treasury Department is at the center of our government. Each year we collect well over $1 trillion in revenues, and we raise required capital through bond sales. With a budget of just over $10 billion, we deliver an incredible return on your investment.

The list of our responsibilities is long, and I'll discuss a few of them in a minute. But first, I want to talk about the new reality about economics, and the significant new responsibilities we have at the Treasury Department.

It is the economy which is on the front pages every day. It is our economic security that is the most important aspect of our domestic and international activities. When I go to a G–7 meeting like the one last week, we're talking about balance sheets, not the balance of power. Restoring strength to our economy now that communism has collapsed, is our primary charge.

To accomplish that, President Clinton has proposed the largest deficit reduction plan ever offered. It is part of our long term effort to turn this economy around, make it vibrant and growing once again, and retain our position of leadership in global economic matters.

Many of the budget and program cuts will be carried out elsewhere, but the task of raising the revenue side is ours. So is the important task of monitoring the success of the economic plan.

Additionally, we expect soon to be able to spell out our plan for reforming our nation's health care system. This is one of the most important tasks we will confront in the coming years. And a great deal of the responsibility for making certain all Americans will have health insurance will fall to the Treasury Department, through our administration of the tax code.

Thirdly, we are seeking to promote global economic growth, through the G–7 process and in our bilateral relations. That is a significant further responsibility and demands considerable attention. Further, we have a renewed emphasis on expanding trading opportunities—and freer trading systems—through bilateral discussions, the NAFTA agreement we expect to put before Congress this year, and the GATT negotiations we hope to conclude this year.

Finally, the other major additional responsibility we have is to devote extensive attention—and what resources we can—to the multinational effort of helping Russia firmly establish democratic institutions and a market economy. In the international arena, this may well be the decade's most important task. To a great degree, our

ability to devote more resources and attention to strengthening our economy depends on having confidence that Russia's transformation will continue. We must pay close attention here, because it is in everyone's interest that this process continue.

Before the Cold War ended, other departments in our government may have been in the news more. Things have changed. The Treasury Department now has the lead role in maintaining our economic security, and we need sufficient resources to be certain we get all these jobs done well.

If I may, I'd like to put some of our budget numbers in perspective for you.

We're asking for $10.3 billion for fiscal 1994. That's up 1.8 percent from what we ended up with this year. That's less than inflation. Now, some of the budget crowd calls that negative real growth. I call it doing a bigger job, and a more complicated job, with less money. If you set aside the IRS budget, the budget for the rest of the Treasury Department is coming down by over $100 million, or about 3 percent even before you count inflation.

Not only that, but when you net things out, throughout the entire Treasury Department there will be the equivalent of nearly 500 fewer employees. That's after we add the equivalent of 2,000 staff years over at the IRS. We are doing our part in meeting President Clinton's goal of eliminating 100,000 positions throughout the federal government, and in cutting administrative costs by 14 percent through fiscal 1997.

We're downsizing—just like many of our corporations are—but we're devoting more resources to the important job of collecting revenue. We have, in effect, slimmed down throughout the rest of Treasury, and believe me, we can feel it, and at the same time made certain the IRS gets what it needs to stay on top of technology improvements that improve efficiency, and enforcement systems that bring in more money.

We can talk about some of our line items later if you want, but I'd like to take a few minutes to give you a look at just what it is that we do.

Our functions are broad, and they are critical to the nation's economic well-being.

Of course, we serve as the President's principal adviser in formulating and recommending domestic and international economic, financial, fiscal, monetary and trade policies. I also have to change hats from time to time and serve as Governor of the international financial institutions.

We're deeply involved in various aspects of health policy, and as I mentioned, that role may broaden once the health care task force settles on an approach for our new health care plan.

We have to analyze what tax and spending policies do to our economy.

And, we must regulate national banks, the government securities markets, and Federal and state chartered thrift institutions.

We keep the government's books. And let me tell you about that. Every time we have to write in there with red ink, we've got to go out and sell securities to get things paid for.

Of course, through the IRS, we collect our income tax revenues, and we try to do that at the lowest cost possible, and in such a way that the public is confident of the job we do.

We have a substantial law enforcement role. It ranges from trade, tax, financial institution and telecommunications fraud, to exports of high technology and munitions, and from counterfeiting and money laundering to alcohol, tobacco, firearms, explosives and violent crimes. And, of course, we're responsible for the protection of the President and Vice President. In addition, we run a consolidated training program for law enforcement officers in Treasury and other departments.

We also are working to improve financial management throughout all of government. We make payments each year to over 100 million citizens, and we provide currency, coins and stamps that we use each day.

That's a tall order. But I think when you look through our budget proposal, you'll agree that we've developed an honest approach to responsible spending. Every place we found a chance to improve fiscal responsibility, we took it. We have developed some innovative responses to our problems. And you can see our commitment to higher productivity in the fact that our budget is actually down from last year when you calculate it in constant dollars.

I'd like to highlight a few of our major objectives because of their importance to making government more efficient and more user-friendly.

First, we want to accelerate the critical job of modernizing the Internal Revenue Service's information systems. This is an investment for the future, and a real example of how we can reinvent government to better serve the public. We're requesting an additional $186 million for this purpose, but we're also proposing substantial reductions of $157 million for modernization investments that have already been made.

The increase we're seeking for the Tax Systems Modernization project is part of the IRS' total Information Systems resources appropriation, which we propose be maintained at essentially the same level as last year. That reflects major trade-offs to maintain the momentum of this critical modernization effort. I particularly want you to know that our budget incorporates $55.3 million in productivity gains that will result from past or proposed investments in our Tax Systems Modernization program.

Second, we are proposing adding $150 million and 2,000 staff years to the IRS to improve our ability to assess and collect the proper amounts of taxes owed. We're going to be paying particular attention to foreign-held corporations operating in the United States.

Third, we will be following through on our commitment to increase the Customs Service's inspector staffing along the Southwest border. This will help cut down on processing delays and better allow Customs to meet the demands of expanded trade with Mexico.

And finally, we are going to be addressing important financial management issues in the Department. I told you that we make payments to over 100 million citizens. At Treasury we write over 435 million checks a year and then make another 371 million deposits with electronic funds transfers. It costs us 36 cents to write and mail a check, but less than 6 cents to do the electronic transfer. The more we can shift our business to electronic transfers, obviously the more money we can save.

Mr. Chairman, members of the Subcommittee, I think you'll agree that we have offered you a budget that meets the challenge of downsizing government, while also responding to our increased responsibilities and the need to provide more efficient service.

Thank you, and I'd be happy to take your questions.

INVESTIGATION OF WACO INCIDENT

Senator DECONCINI. I thank you for your statement, Mr. Secretary, and thank you for your opening remarks, too, regarding the ATF and the particular situation that it finds itself in now. Let me go to the Waco thing and get that one out of the way so that we can get on to some of the substantive issues here.

Mr. Secretary, the Director, Steve Higgins, I believe is one of the most decent and respected law enforcement people in the country. I have now worked with him for 12 years or more, and he has served so well. I know the Treasury Department intends to conduct this independent hearing, and I compliment you for taking that swift action and the nominees that you have put forward.

Can you give us a little bit of a time schedule on when you might have the review available for yourself, and then for the committee?

Secretary BENTSEN. Mr. Chairman, you can't always foresee everything that will happen, but our best judgment is that we're looking at 120 days.

Senator DECONCINI. Thank you.

I know there has been a lot of confusion about what happened there in Waco, both with the FBI and with ATF. I am concerned about the problems that Mr. Higgins seems to be having up here on the Hill, and perhaps from the standpoint of off the Hill as well in being able to respond to questions that are asked him.

In my judgment, even though it's going to be under investigation—as the FBI actions are under investigation—it seems grossly unfair that he cannot answer questions. Now, yesterday he was up here, under your auspices, I'm sure, and gave us an executive briefing which was very helpful to us, and I understand some of those things can't be discussed in the open. But it seems to me that he and the ATF are in a most precarious position if, in fact, there is a gag order or a ruling from you or Mr. Noble or Mr. Simpson or

somebody in Treasury stating that he cannot respond to questions from oversight committees, or even the public.

Is there a gag rule on him?

Secretary BENTSEN. Absolutely not. There is no gag rule on him. And I would say, Mr. Chairman, I asked the same questions you're asking. I said, what are the limitations insofar as what he can testify to? The man has a right to try to defend himself, obviously.

Senator DECONCINI. Exactly.

Secretary BENTSEN. And I was advised by counsel that for all of those things which he was directly involved in and did, there's no problem insofar as his testimony is concerned. I am told that when he goes beyond that, that gets into the realm of the investigation, and they don't want it compromised. Their concern is that it might be.

But I must say, I think it's a frustrating position. And you, who has been a distinguished prosecuting attorney, can well understand his position.

Senator DECONCINI. I can, Mr. Secretary, and I only make this as a suggestion. For future appearances, assuming that there are some and I'm sure there will be on the Senate side, perhaps Treasury would send someone—if not yourself, Mr. Noble or someone—to, quite frankly, defend and explain Treasury's involvement in that case. My observation is that the FBI was extremely well served by having the Attorney General there, taking full responsibility.

Secretary BENTSEN. The Attorney General is in a position of having made those decisions herself.

Senator DECONCINI. That's right.

Secretary BENTSEN. That certainly is not true of me.

Senator DECONCINI. I understand that.

Secretary BENTSEN. As you know, I was in England at the time, attending the G–7 meeting.

Senator DECONCINI. Yes; I understand, and I know——

Secretary BENTSEN. And when I got back, I ended up spending most of the night up, trying to see that there were no further engagements, in my following through with Mr. Higgins, with the FBI, with the Governor, and with the President.

Senator DECONCINI. I saw your statement. I thought the statement you made was very good. We know things are volatile and changing, and everything is going to come out in the investigation. Nothing is going to be hidden. If mistakes were made, and I suspect there were, they're going to be explained.

It just concerns me that the Bureau seems to be more and more isolated here as this unfolds, because Mr. Higgins has not been able to, as you said, defend himself. Indeed, it is frustrating.

Secretary BENTSEN. He can defend himself on everything that he himself did. I am told that that's where the attorneys draw the line, that they are afraid that if he goes beyond that point, he compromises the investigation. So I have been advised by counsel.

Senator DECONCINI. Well, I can't argue with your counsel, but I'd be glad to if you want to send him up to me, because I really think it's damaging to the Treasury Department, Mr. Secretary.

Secretary BENTSEN. Well, I don't think it is, and I don't think it should be. I think the investigation—and I am looking forward to that investigation——

Senator DECONCINI. I am, too.

Secretary BENTSEN. Fine.

INTERNAL REVENUE SERVICE BUDGET REQUEST

Senator DECONCINI. Let me turn to the Internal Revenue Service, on which you went into some detail.

The proposal for 1994 includes an investment initiative of $7.395 billion and 116,000 full-time equivalent positions. This amounts to $284 million above 1993, and 1,242 FTE's below fiscal year 1993.

Included in this amount is an increase of $186 million for IRS tax system modernization activities, and $150 million for compliance. Also included in the 1994 budget are some $50 million in productivity savings. While this is the smallest increase I've had here in more than 4 years, it's still a hefty chunk of money.

I am pleased to see, Secretary Bentsen, that $15.8 million and 158 FTE's have been requested for the Criminal Investigation Division. While I believe a lot more needs to be done in this area, I compliment you for putting a high priority into criminal investigation, as you know well from chairmanship of the Finance Committee just how important those criminal investigations are and how good the IRS is.

CRIMINAL INVESTIGATION ORGANIZATION

The language in last year's Treasury bill directed Treasury to conduct a study of the IRS Criminal Investigation Division's organizational structure and report its findings and recommendations to Congress. The language directed Treasury to assign representatives from certain Federal departments and agencies, among others, to put together a committee on the Criminal Investigation Division.

The reason I inserted the language in the statement of managers was because I was convinced that the IRS Criminal Investigation Division was not reviewing and receiving the focus it deserved, and that nonlaw enforcement managers within IRS had made a decision not to establish direct line authority.

Mr. Secretary, are you briefed on this subject matter? If not, we can talk about it another time. I hope we advised you that I am interested in this and would like your comments to see if you have had any time to consider the line authority on the criminal investigators in the IRS, rather than the way it is working now, because of the success that they have proven, and often there is a divergence or dissipation of that when somebody else decides they have to go someplace else.

Secretary BENTSEN. Let me say, Mr. Chairman, that IRS Commissioner Peterson met in December to identify the CID management issues that this new administration might consider. That package of issues was sent to the Secretary-designate on January 19. We have not had a chance to review those issues as required by the committee. But in the meantime, the IRS has developed an

action plan to centralize financial resources under the Assistant Commissioner for Criminal Investigation.

Senator DECONCINI. Just a little history, in the past administration the Attorney General, the drug czar, even the Assistant Secretary for Enforcement all favored it, but your direct predecessor did not. So it didn't happen, nor did the IRS do it.

I call it to your attention and I am glad to know that you are going to review it and are going to proceed with decision.

UNDER SECRETARY FOR ENFORCEMENT

Along that line let me ask you another question that concerns me about the effectiveness of the law enforcement side, Mr. Secretary. For many years I have felt very strongly about creating an Under Secretary for Enforcement within Treasury to promote and protect the Treasury's enforcement interests. Secretary Brady did not agree with me, and consequently the issue didn't surface. Treasury law enforcement bureaus which are not properly handled by the Department because of Assistant Secretaries do not get the same attention, as you probably know, when they are dealing with other agencies, such as the Department of Justice. The Department of Justice normally has the Attorney General or her deputy handle the disputes that might come up between departments. I am not insinuating that this will happen under this administration. Maybe it won't.

We have an Attorney General who is not only committed to cooperation, but to understanding the need for an Attorney General to be involved in minimizing jurisdictional disputes. I know you feel the same way. We know that they're there. They always have been.

I am hopeful that in your thought process you would consider what is the best organization—I realize you have to deal with this—in creating an Under Secretary for Enforcement on the deputy level of some kind, so that there would be this equalization across other secretariats as they deal on enforcement issues.

Secretary BENTSEN. Mr. Chairman, I'll tell you what I'm doing on that one. I think we need more than that in the way of organization and reorganization. We are doing an extensive review, starting now, about my responsibilities and the status of Under Secretaries and Assistant Secretaries. It will go far beyond just the question of enforcement, which is a very major one, I grant you.

But let me get through that one so that we can better determine how we can make it operate more effectively.

EFFECT OF POSITION REDUCTIONS ON LAW ENFORCEMENT

Senator DECONCINI. Let me turn to the law enforcement side again, Mr. Secretary.

The administration has committed itself to 100,000 police officers on the street. When I heard about the President's Executive order reducing 1.5 percent and so many FTE's across the board, and 3 percent on the administrative side, it gave me a great deal of cause for concern. The Congress, in fiscal year 1993, funded 300 positions—you and I offered that amendment, as you will recall—for the Customs Service to man ports of entry along the southwest bor-

der. No one needs to explain to you those needs, having represented Texas for so many years.

Yet from the Customs budget for 1994, it appears that Customs will only fund 100 of these positions in 1993, and in fiscal year 1994 will be cutting an additional 465 positions, including 76 positions from the INS and 85 positions from the tariff and trade side. This doesn't make a lot of sense to me if in fact NAFTA is going to be approved here.

Does this concern you, Secretary Bentsen, that these cuts will undermine President Clinton's ability to facilitate trade with Mexico? And is there a little contradiction on the basis of 100,000 new law enforcement people on the streets?

Secretary BENTSEN. Well, we have 150 additional FTE's in fiscal year 1993 for the southwest border, as I recall, plus another 100 FTE's in our fiscal year 1994 request. This equates to a total of 250 positions. Then there will be at least 50 positions added under COBRA reimbursements..

Senator DECONCINI. That's correct.

Secretary BENTSEN. So we have done that, to that degree.

Senator DECONCINI. That's the best you're going to be able to do?

Secretary BENTSEN. That's the best we can do now. I share the same concern. We've shown that by our legislative action in the past.

I must tell you what happened, just to review an incident. I can recall that the previous head of Customs was telling me that they had absolutely no problem along the southwest. I said, "And how do you know that?" She said, "Because I went down and investigated it." I said, "Next time, you go down there without all flags flying, without their knowing that you're coming down, and let's see if we can't show you what the problem is."

EXCEPTIONS TO POSITION REDUCTIONS

Senator DECONCINI. I was just down on my border, Mr. Secretary, without any flags flying, and disaster is too big a word, but it's an insult, the way we're treating legitimate Mexicans who want to come into this country, and how we don't have the people—the inspectors, just the inspectors, not to mention the Customs people and other INS.

I raised this issue with Director Panetta when he was here on Tuesday. He said that he had been given authority by the President to waive the personnel reductions if there is good cause, particularly in the law enforcement area. He left me with the distinct impression that he would consider that, based on the arguments that would be made from agencies and departments—Secretaries obviously having a lot of influence there—as to the necessity not to reduce line item law enforcement personnel.

Are you considering such an appeal to OMB?

Secretary BENTSEN. No; I have not at this point. We're trying to do things, Mr. Chairman, more effectively and more efficiently. As you know, we are moving some additional positions down there. But we are trying to do a better job of targeting those inspections. We are trying to do a better job utilizing modern technology, including an analysis of past violators to see if we can't do a more efficient and effective job.

Senator DECONCINI. I know I've talked to the new Commissioner-designee at Customs, and I am very pleased, by the way, with his commitment and understanding of the problem. I can't speak to anybody better than you on the southwest border, and I suspect the northern border has some problems of its own. We have new ports of entry coming online. We're cutting back on Customs. We're cutting back on INS.

Mr. Secretary, it seems to me a valid proposal when Mr. Panetta has indicated—and I did not know it—that the President has authorized him to waive some reductions, that law enforcement would be a wise place to make such a request.

Secretary BENTSEN. You and I share a deep concern about law enforcement.

Senator DECONCINI. I would urge that you consider that, Mr. Secretary.

Secretary BENTSEN. Let me see what we can do. As you know, we've proposed $5.3 million and 100 FTE's to annualize the Mexican border initiative, where we are having a serious problem. All you have to do is go down to a couple of those counties, and see the new pickups and houses—you know the crops have not been that good. It's a very difficult thing. On the ranch adjoining our own, some drug dealers came through and tied up the foreman and his wife and shot them. So we understand the violence and concerns that we're facing down there.

Senator DECONCINI. I don't need to preach to you, then, Secretary Bentsen. It just seems to me a valid operation to go and appeal to OMB for the waiver, and I certainly can't make you do so, but I certainly hope that you do.

Senator Bond, I yield to you for your questions. I have some later for the Secretary.

INVESTIGATION OF WACO INCIDENT

Senator BOND. Thank you very much, Mr. Chairman.

I would certainly agree with you in your opening comments about the strong endorsement that you made of the work of the men and women in the ATF. There may be semantics on which we could disagree over whether there was a so-called gag order or not with respect to Director Higgins, but it seems to me, as it does to the chairman, that the ATF was put into a very difficult position with respect to the actions prior to the raid, particularly in comparison with the participation by the Department of Justice.

I would hope that if there are further appearances by Director Higgins, that there will be some support from the top level of Treasury so that where there are legitimate concerns about interfering with an investigation, that point can be made by officials of Treasury, because having heard the briefing, I think there are some very good answers that Mr. Higgins has given. Some of them, I would agree with you and with counsel, should not be discussed publicly. But I think there are many matters that could be covered by Mr. Higgins if he is given another chance to appear in a public forum.

Secretary BENTSEN. You know, the thing troubles me, frankly. I have asked counsel repeatedly. I said, "I want to be sure that the case can be fully made to the extent that it will not compromise

the investigation." They keep assuring me that these are the lines that have to be drawn. But it's a difficult position to be placed in.

Senator BOND. I would agree with you 100 percent because I, too, feel that Mr. Higgins has been put in a very awkward spot as a result of the limitations on his testimony.

To move on to a broader policy question, this town is always rife with rumors, and one of the rumors that has come to our attention is perhaps some initiative by the administration either to abolish the ATF or to move it to the Justice Department. Are there any active plans underway regarding perhaps either abolishing the ATF or moving it to the Department of Justice?

Secretary BENTSEN. Certainly not.

Senator BOND. Well, again, I feel that the ATF generally has established great expertise, and I would hope that the Treasury Department would maintain that role of both ATF and Customs.

REPORTING REQUIREMENTS

Moving on to specific requests, in my limited experience in the Senate I have seen that the number of reports required each year of the executive branch continues to increase. We never repeal any existing requirements; we just add more requirements for reports. And as it affects the Treasury, do you have any idea or any estimate as to how many full-time employees are occupied in preparing reports, what kind of resources are utilized—I won't say wasted, but utilized—in that activity? And have you undertaken any investigations to determine whether we might be just as well off if we eliminated, through executive and/or legislative action, the number of reports that are required?

Secretary BENTSEN. You're right about a lot of reports being required. Let's see if we can do a review and get a better feel for that one. I think it's a legitimate concern. I know I have a couple more that have just been requested of Treasury by the Congress, and I've been trying to talk them out of it. I haven't been able to get it done yet.

Senator BOND. Well, I have found—again, in my brief experience—when there's a tough issue that Congress can't deal with, we have two ways of dealing with it. We either pass a sense of the Senate resolution, and everybody knows how harmless those are, or we require a report. Frankly, if you could give us some guidance with your high degree of standing on Capitol Hill, you might be able to encourage us to rely more on sense of the Senate resolutions instead of reports. I would be most anxious to assist in carrying that out.

Secretary BENTSEN. I appreciate that very much, Senator.

FINANCIAL SERVICES INDUSTRY REGULATION

Senator BOND. One of the areas in which I've had an opportunity by default to take an active role is in the regulation of the financial services industry. Certainly, a strong and competitive financial services industry is essential to America's economy. The markets have changed; the competition has changed, but basically the laws governing the markets have been unchanged since the 1930's. Congress has spent more than 3 years recently debating how innova-

tive financial products with attributes of both securities and futures should be regulated by the SEC, by the CFTC. I failed miserably in an effort a few years ago to try to bring some sense out of that.

But recently Mr. Jack Sanders, chairman of the Chicago Mercantile Exchange, expressed the sentiments of many of the participants in the financial services sector when he concluded that the current regulatory structure makes no sense. He said, "The hard truth is, we cannot expect to remain globally competitive for the remainder of this century and on into the 21st unless we move now to rethink and reshape our country's scheme for regulating financial services. In a nutshell, American cannot continue to regulate the equivalent of a space age industry with railroad era rules."

Mr. Sanders, for example, has called for consolidation into a single cabinet-level department of the bank regulatory agencies, FDIC, OCC, OTS, the Fed, along with the SEC, CFTC, SIPC, and the PBGC. I have heard, I might add, from many of the people who benefit from the regulatory guidance of four or five or six or seven agencies, that perhaps we may be providing them more assistance than they need.

Would you agree with the general proposition that we need to modernize our financial services regulation? Have you looked at these or other proposals? Do you have any idea yet as to what direction you might take?

Secretary BENTSEN. No; I have not looked at them, Senator. I certainly agree that we should do some things in the way of further modernization.

I must say that we were able to get some cooperation to a degree that I hadn't seen in a long time when we were addressing the credit crunch. We were able to get the Comptroller of the Currency, the Chairman of the Federal Reserve—we were able to get the thrift organization—we got four of them together, working together, in unanimity, making some very substantial changes in regulations, trying to ease up on credit, which was a step in the right direction.

But insofar as formal consolidation or modernization, I think there is more yet to be done.

Senator BOND. I would agree, and getting that word down to the examiners in the field is a challenge far greater than getting the heads of the agencies in Washington to agree. I hope that you will have some success in that.

Secretary BENTSEN. One of the problems we have is that they never get criticized for being overly tough. So if they make a very tough, highly conservative decision, the fact that that may further restrict credit beyond a reasonable degree and what it does to the economy, is never reflected on their record.

Senator BOND. I will say the second part of that which you are too gracious to say is that if you make a reasonable judgment and it turns out bad, there will be congressional committees and leading Members of Congress who will excoriate you and hang you by your thumbs, which makes a very clear message as to which way the examiners need to go.

CHANGES IN TREASURY BORROWING STRATEGY

I have a number of other questions I will submit for the record. There is one other thing I do want to bring up. Yesterday you announced the change in the Treasury's borrowing maturity mix. I have been very much concerned throughout when this was proposed as a major budget saving, that there would be too much emphasis placed upon the short-term savings aspect to achieve some immediate reduction in borrowing costs. It seems to me that the last time we had a major on borrowing short-term and lending long-term was in the savings and loan industry in the 1970's, in that period of time, and we all know how much that has cost.

I noted that you took some steps that apparently were significantly less than had initially been proposed. I would like to ask you, to what degree do you feel you must balance the benefit of getting lower-term interest rates now against the risk that by loading up too heavily on short-term maturities, the Treasury—and thus the taxpayers—may find themselves in a position where we have a substantial negative surprise if, when all of those short-term notes come due, we are faced with a blip up in interest rates which imposes significantly higher borrowing costs?

Secretary BENTSEN. Senator, I had that very much in mind as I looked back to what happened in the early 1980's. I remember financial institutions that felt interest rates just couldn't go any higher than that, and they overloaded themselves, betting on the interest rate, and then saw it escalate very substantially.

So what we tried to do, after very careful study and analysis, was to moderate it some. If you look back to the period of time at the average borrowings of the Treasury in past years, we are up near the high part of that cycle insofar as long-term debt. We have made what I think is a moderate turn down on 30-year bonds; we did not cut out all the 30-year bonds. We reduced them by, as I recall, about 45 percent. We will have a semiannual instead of quarterly offering of the 30-year bonds. The amount of these bonds issued annually will be cut by less than one-half. The issue size will be increased to the neighborhood of $11 billion annually. The quarterly 7-year note is going to be discontinued. It really had not been having a good reception. The Treasury funding will be shifted toward a mixture of coupon securities with maturities of 3 years or less, and bills.

Overall, we think it will save us significant money, keep long-term rates down, and will not expose us to undue risk.

Senator BOND. I appreciate the fact that you took into account that risk and did not make a total move, as some might have preferred for short-term savings.

Mr. Chairman, I'll reserve my additional questions for later.

Senator DECONCINI. The Senator from New York?

Senator D'AMATO. Thank you very much, Mr. Chairman.

Mr. Secretary, it is good to see you. Let me say that I want to applaud your action in moderating the sale of the 30-year bonds. I had urged that approach to your predecessor, Secretary Brady. There is a considerable disparity between the short-term interest rate and the long-term interest rate. I think a substantial portion of that spread has taken place as a result of Treasury's increasing

over the years the volume and the amounts of 30-year Treasury bonds. So I applaud your effort to attempt to find a middle course, hopefully to lower that gap, and hopefully to save the taxpayers' funds. There is always some risk involved in any particular act, but I think it's long overdue, so I want to applaud you.

Secretary BENTSEN. Well, I appreciate that. And I would say, Senator, when the day's trading was over, it was obvious that what we had done was not disruptive.

Senator D'AMATO. There will always be those economists who, whenever there's a change, will say that this does not comport with sound economics. However, these economists are often wrong. I don't know how you get to be an economist. I guess you can't be a lawyer, a doctor, an engineer, an Indian chief, so you become an economist. [Laughter.]

So I applaud Treasury's policy, and I don't think we should be critical. I think it was long overdue.

Secretary BENTSEN. I thank you very much.

CREDIT CRUNCH FOR SMALL BUSINESSES

Senator D'AMATO. Mr. Secretary, when President Clinton and you had a meeting at the White House to deal with the credit crunch, particularly as it related to small businesses, it was an historic meeting, because you brought together the various regulatory agencies to attempt to deal with that problem. I applauded that action. I also suggested that of creating a secondary market for small business loans by securitizing them could make available the kind of credit that we've seen made available to the home mortgage market.

Mr. Secretary, it's not just anecdotal, but the fact is that the credit-starved small business community continues to be starved. It's a fact. The demand is there. The banks, notwithstanding the easing of certain bank regulations—and I applaud that—are still not making loans. I could cite for you two entirely different businesses, each of them tremendously successful; one the largest in the Nation, the other the most successful marine hardware store in Long Island, and they can't get adequate credit.

Now, if the most successful of small businesses are having a difficult time, then I would suggest to you that one of the reasons we are having the lag in employment is as a result of not opening up the arteries of credit to the small business community.

I have proposed legislation, the Secondary Market Enhancement Act, S. 384, which has 37 cosponsors, including a majority of the Senate Banking Committee. We have been approaching it in a bipartisan manner. I would hope, because I've raised this with you previously and I understand you've had more than your hands full, that we could get some cooperative effort with your technical people and the staff of the Banking Committee, to see if we can't develop the best approach. There are some technical problems. We've talked to the Federal Reserve staff as it relates to the credit rating of these securities. In order to get them credit-enhanced, the bank would have to hold a portion of the loan. For example, if it made a loan of $1 million, it would hold 10 percent. How do you treat that $100,000 from an accounting point of view is an important

issue. So we need some help from Treasury in dealing with the regulators.

But I think here is an opportunity to really open up credit to credit-starved small businesses. If the banks can develop this secondary market, instead of making one loan for a million, they will be in the position to make eight or nine times that volume and not have to set aside the kind of capital requirement because they are able to sell it off into the secondary market.

So we're talking about something that can literally free up tens and tens of billions of dollars. And the engine of economic growth, as the President has stated, as you have stated, has traditionally been the small business community.

Now, I have to be candid. I've spoken to a number of people and they have said, "Yes, yes, we like the idea," and it hasn't been forthcoming. As we say, "ninva" in Italiano, nothing.

Mr. Secretary, would you ask your staff about this? I've tried to be cooperative wherever I can be.

Secretary BENTSEN. Senator, there obviously are some concerns because you generally have more credit risk when you're talking about small businesses.

Senator D'AMATO. Sure.

Secretary BENTSEN. You want to know if you have a sufficient amount of it so that you can securitize it. In addition, it must be a credit risk that is manageable. That is not an easy challenge to resolve.

The other point that you want to be sure about when you're talking about small business loans, is that normally you have more administrative costs involved in those, too, enormous costs often.

So trying to handle that kind of management portfolio diversity and the credit risk is something that is new and different, and we have not been able to come to a conclusion on that. We have not got into it in the depths yet that I think we should before we try to make a judgment.

Senator D'AMATO. Well, that's fair. I can't tell you that I'm particularly pleased with it, but that's a response.

Secretary BENTSEN. I understand that.

FLEXIBILITY OF REGULATORS

Senator D'AMATO. I will continue to pursue it, Mr. Secretary, because all of those issues that you've raised can be solved. I've met with all of the various rating agencies and people who are familiar with this. We securitize car loans. This isn't anything new. There are methodologies by which to deal with this in a way to minimize risk. Let me suggest one of them.

For example, it would be very risky to allow a bank to take all of its small business loans, and to put it into securitization. Consequently, we could constrain or place limits on this activity.

Secretary BENTSEN. I understand that approach. I did that on the prudent man rule on pension reform years ago, where I said they could go into gold mine stocks if they wanted to, as long as it is a comparatively small segment.

Senator D'AMATO. Even that kind of movement would open up, potentially, tens of billions of dollars that will not flow otherwise, Mr. Secretary, because when you look at the capital requirements

that must be set aside for that loan, when you look at the cost in terms of each of those small loans, that's the kind of thing that makes bankers say, "That's the last thing we want to become involved in." So I leave that with you.

EXAMINATION FEE ON STATE-CHARTERED BANKS

One other thing, Mr. Secretary, I was taken aback when the administration proposed and Congress adopted a provision in the budget resolution that would exacerbate the credit crunch by imposing a $1.4 billion examination fee on State-chartered banks. As you know, under the current capital standards, banks can lend $12.50 for every $1.00, so if we impose $1.4 billion in additional fees, that really means that there is a potential of $17 billion in small business loans or loans that will not be made. That flies in the face of the direction we're going.

I was pleased to learn that over in the House, the House leadership, in dealing with reconciliation policy, opted to come up with $1.379 billion by a variety of other fees. They accelerated the amortization of FHA; created a depositor preference; and they transferred surplus Federal Reserve funds to come up with that.

I would hope that the administration would look favorably upon either this alternative and/or other alternatives, and give to the Banking Committee the same kind of encouragement to come up with the alternative. I'm not saying we do not need to reduce the deficit by the $1.4 billion, but I think we can do it in ways which will not exacerbate the credit crunch. That is my reason for raising this with you, and I hope that your people would be openminded toward this.

Secretary BENTSEN. I missed part of that, Senator. Are you saying you want an alternative to equalizing the assessment?

Senator D'AMATO. Yes; in essence, I'm saying if the Banking Committee or your people would work with us, we think we could demonstrate to you that we can find——

Secretary BENTSEN. It's a question of fairness.

Senator D'AMATO. Oh, sure. But I think we can find $1.4 billion.

By the way, an alternative approach would avoid another troublesome question. There's a very real question as to whether raising fees by $1.4 billion on State-chartered banks really counts as deficit reduction. So I think we can avoid that battle—and there will be a battle on that.

Secretary BENTSEN. I would like to hear what it is.

Senator D'AMATO. Well, I mentioned that the House came up with a plan which raises $416 million by accelerating the amortization of FHA up-front premiums; depositors' preferences, $750 million. In other words, when the FDIC is paying claims, they say, "Well, we're going to recognize the depositors first." That saves $750 million. And transfer of $213 million of Federal Reserve surplus.

Now, that's what the House came up with, and I believe they're going to pass that today.

Having said that, I would just say that I would hope that we in the Senate could work with your people to develop an alternative to this imposition of almost $1.4 billion on State-chartered banks,

and then we avoid the possibility that this money can't be scored for deficit reduction. That's No. 1.

No. 2, we won't further exacerbate the credit crunch.

Secretary BENTSEN. We will take a look at it, Senator. I would say that we think this is a fair approach, frankly, and equalizes it. That was our primary concern, plus, obviously, the revenue. But that doesn't mean that we won't take a look at it.

Senator D'AMATO. Good. Thank you.

Thank you, Mr. Chairman.

Senator DECONCINI. Thank you.

The Senator from Nebraska?

Senator KERREY. Mr. Secretary, nice to see you.

Secretary BENTSEN. Thank you. Good to see you.

Senator KERREY. I have a series of questions that I would like to submit for the record.

EFFECT OF LOWER INTEREST RATES

I don't think anybody doubts that the administration has already accomplished a great deal, although there may be some political rhetoric to the contrary. Specifically, Mr. Secretary, I think in the housing industry and the automobile industry, as the consequence of lower interest rates, there are people working today that weren't working prior to the President's wholehearted commitment to reducing the deficit. His State of the Union address unquestionably changed the political dynamic in America and gave people confidence that we were going to do something about that.

You have far more experience at this side of the table than I have, and you know how difficult it is going to be in the end to vote for the tough choices we all talk about, whether it's the actual cuts in program spending, or the taxes. Both of them will be difficult. I am already being encouraged to vote against different things and am being given all sorts of reasons why to do it.

I think that all of us are going to need to focus on, in particular as I said, the housing and automobile activity that is occurring since the President's speech, since you all took the reins of power, as we approach those votes, because there's no question that Americans in the marketplace are enjoying a recovery as a consequence of lower interest rates.

CAPS ON ENTITLEMENT PROGRAMS

Mr. Secretary, last year one of the issues that came up—this is a bit off the subject, but that's not unusual for Senators to get off the subject—last year when the question came before the Senate as to whether or not to cap the entitlement programs, I didn't vote for that last year. This year I did vote for it. Interestingly enough, there were 43 Republicans who voted for it; I think that's about twice as many as voted for it last year. I believe what that means—I hope what that means—is that the President's message to the American people is getting through to us, that we are now voting for things that we found to be awfully difficult, and we would give reasons why not to do it.

I'm saying this to you publicly, Mr. Secretary, because I'm trying to communicate to the administration, saying that that one item—

and I know they have not been favorable to it in the past—that one item would provide $90 billion of additional spending reductions over the next 5 years. I hope that that's part of the calculus that will be considered as we move to try to get this reconciliation bill passed. Perhaps there is a new majority here, and I would emphasize that it is a majority that occurred as a consequence of the President's own speech, and the obvious impact. We want to be able to put Americans to work. We want to create those jobs. As I say, political rhetoric to the contrary, there isn't any question at all that those lower interest rates mean that there is economic activity in jobs today that wasn't there before.

There was a lot of courage behind that speech, a lot of courage to stand before the American people and say, "It's going to take cuts and it's going to take tax increases." I'll tell you, what I heard was a sigh of relief, people saying, "Hallelujah, we've finally got a President who is going to tell us the truth."

I know that this hearing is not to talk just about that, but to talk specifically about your budget. But I just wanted to communicate, with great respect to you and to the President, that I think there is a possibility of a new majority sort of emerging to vote for things on the spending side that we might not have had the courage or the willingness to vote for in the past.

Secretary BENTSEN. Thank you very much, Senator.

ECONOMIC STIMULUS OF LOWER INTEREST RATES

I must say that what has happened to interest rates is a reflection that Wall Street is taking seriously our effort to cut this deficit. In talking to Alan Greenspan, he says that 10 basis points cut in the interest rate is the equivalent of $10 billion in stimulus. At this point rates are about 80 basis points down since December, which is $80 billion in stimulus. So that has been a major help, no question about it.

We've looked at some of these indices and are concerned about seeing the economy continuing to progress. If it wasn't for that reduction in interest rates, I am convinced we would see ourselves dropping backward, and the indices would be much poorer than they are now.

Overall, as I look at the rest of the world and look at Europe, we are seeing a situation where they had been contractionary. Now we are seeing a reduction in their interest rates, which hopefully is going to get them growing again. We can't pull this world out by ourselves, insofar as growth. We have talked to the Japanese repeatedly. They originally had a contractionary budget for this fiscal year. They had two quarters of negative growth last year, so we were delighted and pleased when they agreed with us and produced a stimulus package, a supplementary budget, which will give them some modest growth, of something on the order of 1.5 to 2 percent. They are a little more optimistic than that.

But overall, we are looking at a slow period of growth around the world in the major industrial countries. As compared to the rest of them, we're doing pretty well.

Senator KERREY. I remember voting for the 1990 budget summit legislation. I remember when I went home my people said, "That was terrific; you're taking action to reduce the deficit, except that

we don't like the spending cuts and we don't like the tax increases. Other than that, we loved it to death." [Laughter.]

So I am very conscious that this one is going to be tough. I think it's awfully important for us to do as the President has asked us to do, which is to focus on the long term. Our sight of view may take us beyond our own election, which is always a difficult thing.

I just want to say to you, Mr. Secretary, that I am prepared to vote, particularly on the spending side, for things that in the past I have not been willing to vote for, because I think we have to do that.

Secretary BENTSEN. I share that very strongly.

RENEWABLE FUELS INCENTIVE ACT

Senator KERREY. Mr. Secretary, there is a piece of legislation called the Renewable Fuels Incentive Act of 1993. I don't know if you're familiar with that; Senator Daschle and I and a number of other people are cosponsoring it. I call it to your attention. It is an attempt to deal with the conflict and the problems that we've had over ethanol. By extending tax credits to EPBE, it is a compromise that is endorsed by the petroleum industry, as well as by most of the renewable fuels people. I believe it clears up the problem that we have with the regulated negotiations that occurred after the Clean Air Act. It is apt to have some impact on revenue, I assume, but it is a straightforward attempt to resolve the conflicts that we have right now over ethanol, and I think it's a reasonable one. There are some corn growers who don't like it and are nervous about it because they would rather go straight with ethanol, but I think what Senator Daschle has come up with here is an awfully good piece of legislation. I don't know if your staff has passed you some comments on it or not, but——

Secretary BENTSEN. No; I don't think so. Senator, let us take a look at it.

You know, Treasury has responded to you on ethanol, and I thought we had worked out that situation rather well. I am not familiar with this one, though I will take a look at it.

Senator KERREY. Senator Daschle put in a lot of time on it. There are a number of groups that recognize that we have to break this impasse. We have to break the impasse and we all have to give a little bit to get it done. This is a pretty broad coalition of——

Secretary BENTSEN. Do you have any feel for how much it costs in revenue?

Senator KERREY. I do not have a feel for what it would cost. Senator Daschle, being on the Finance Committee, I assume has some estimate.

Mr. Chairman, that's all the questions I have.

ECONOMIC ASSUMPTIONS FOR BUDGET AGREEMENTS

Senator DECONCINI. Thank you, Senator.

Mr. Secretary, a few more minutes and then we'll let you get back to your real work.

Mr. Secretary, following up a little bit on what the Senator from Nebraska talked about—maybe a new direction here; we sure hope so, and certainly I agree with the Senator's observation on the

President addressing this up front about the costs and what is going to have to happen. I wasn't one of the ones who joined you and others who voted for the 1990 budget summit agreement; not because I was so wise, but I was fearful that the deficit wouldn't go down, as we know that it did not.

Secretary BENTSEN. You know, there was an interesting thing in that agreement. The administration and the Congress have generally stayed within that agreement. The big problem, and the big thing that really torpedoed achieving the goals, was the assumption as to what was going to happen to the economy. We took the numbers of OMB, which were far too optimistic, so the revenues that we had anticipated never were forthcoming.

Senator DECONCINI. I know that the administration has not taken OMB numbers here. They are taking the numbers from the CBO, and then they correct them.

Secretary BENTSEN. That's correct.

Senator DECONCINI. That certainly is an indication of the problem with the last budget agreement, but the reality is that these CBO numbers have been closer—at least as long as I have been here, under Democratic and Republican administrations—than OMB numbers. We could debate why.

DEFICIT REDUCTION TRUST FUND

When Director Panetta was here testifying, I raised this issue. Mr. Secretary, I've talked to you about it before, and I know you've had some strong feelings, and maybe some problems with past administrations addressing it, and that is a deficit reduction trust fund, a fund set up for the purpose of new revenues set aside to retire debt only.

I know I've talked to you, I've talked to members of your former staff on the Finance Committee, and I've talked to Secretary Brady and seen the opposition to it in the bookkeeping problems and that it may not really work. I have developed some legislation, and Congressman Schumer on the House side has developed similar legislation.

Mr. Panetta said that the administration is indeed looking at this, as well as other possibilities of discipline and enforcement of whatever the reconciliation is on new revenues, so that these funds—perhaps with the exception of health care funds, which would come later, new revenues—would be really dedicated to deficit reduction.

I would like to know if you have been part of the process of dealing with ways to ensure the American public—and quite frankly, to get the vote of Dennis DeConcini, and maybe others, for new revenues—of being sure that the deficit goes down. I know the arguments that, if you use the right numbers, if you cut out spending, as this budget does, and if reconciliation does that, then the deficit will go down—certainly, if interest rates stay down. But you know better than I do, Mr. Secretary, how many times we've been here and we've heard that argument. And indeed, it doesn't work out that way.

That's why this Senator and some of us feel like we have to have some enforcement. This is just one idea.

Have you had any participation in the administration in developing anything along this line? Or what reaction do you have?

Secretary BENTSEN. Not to this point; no, I have not.

Obviously, we would look for any idea that we could to further discipline the process and to see that new revenues go to the intended purpose. And to help dramatize it, frankly, you have to get the support of the American people. There's a great feeling out there, "Well, sure, I'd do it if I really thought it was going to the deficit." I understand what you're trying to get at.

Senator DECONCINI. That's exactly what I'm hearing, Mr. Secretary, from my constituents, is, "I'm willing to pay the price, but don't tell me and then come back 2 years from now, because quite frankly, I really don't believe you this time, because you said it was going to work last time." I don't mean that personally to you or me, but in general, Washington is just not believed.

Secretary BENTSEN. I understand.

Senator DECONCINI. I urge you to take a look at that.

REFINANCING PENALTIES OF FEDERAL FINANCING BANK

Turning to a very parochial area, Mr. Secretary—it's my understanding that foreign governments may refinance loans issued by the Federal Finance Bank without a penalty, while domestic borrowers, specifically electric power co-ops, have significant penalties attached to refinancing.

If I am correct, that is a decision that is made by Treasury, whether or not that same rule would apply to domestic borrowers as applies to foreign borrowers, and I will give you some details of the biggest co-op in Arizona, what it cost them, some $7 million to refinance. They would refinance another one, but the penalty is too great.

It seems to me that the disparity isn't fair and just doesn't make sense. Are you familiar with this? And can anything be done about it?

Secretary BENTSEN. I have some knowledge of it. I don't know what the prepayment limitations are on the REA's in that regard, but I would say the analogy and the justice sure seems to be there. I don't know how much it would cost——

Senator DECONCINI. I don't, either.

Secretary BENTSEN. You know, it's one of those things where you just feel like justice would demand that you do something, if you can. But let me look at it.

Senator DECONCINI. That's all I can ask, Mr. Secretary.

You know, I hate to suggest not doing it to foreign borrowers, because there may be international reasons to do that. On the other hand, it's hard to explain back home.

Secretary BENTSEN. It depends on the prepayment conditions in the instrument itself, generally.

Senator DECONCINI. And that's what I would ask you to look at. My information tells me that Treasury can change that by its internal rules and decisions, and I'm not positive I'm correct. If so, I would hope that you would consider that.

Secretary BENTSEN. Well, we would be happy to take a look at that.

Senator DECONCINI. Thank you. And would you have somebody get back to us on it in a few weeks so that I can get some answers to my people?

Secretary BENTSEN. Sure.

AIR DRUG INTERDICTION PROGRAM

Senator DECONCINI. Mr. Secretary, regarding the Air Drug Interdiction Program, one that you have been familiar with, we have worked for many years along the border. Most of the criticism has been targeted at the Customs Air Interdiction Program, and particularly the aerostat balloons. I believe the bulk of the attacks have been grossly unfair. As you probably know, I held some hearings in February where Federal law enforcement agencies came forward, local law enforcement and the Department of Defense came forward, Customs representatives were there and testified on behalf of the Department. I'm wondering if you can tell us your views regarding the Drug Interdiction Program, the current role being played by the Customs Service to reduce the flow of illegal drugs, and what your position is?

Secretary BENTSEN. Obviously we feel very strongly about it and want to do everything we can to be effective in that regard. I would say that the level we have now, out of the $1.078 billion, is sufficient to maintain Treasury's effort to combat drug trafficking and related crimes. Of course, that's interdicting drug imports; stopping drug-related money laundering; financial crimes; and drug-related violent crimes. The FTE estimate we're talking about will be accommodated with a minimum impact on the success of these efforts by improving the efficiency and the targeting of Treasury enforcement programs.

We have an incredible task on our hands.

Senator DECONCINI. Indeed we do, Mr. Secretary. You know, I'm not wedded to one particular program or platform for doing it; I think we just need to put up some defense against the drugs that are coming in, and I know that you and I agree on that.

LAW ENFORCEMENT CONCERNS

Mr. Secretary, I have questions on the forfeiture fund that you were instrumental in creating last year. As a matter of fact, it would not have happened had it not been for you and Congressman Rostenkowski on the House side, at the request of the former Secretary. It concerns me, and I'm going to submit some questions to you regarding it so that we don't have to go into great detail here, why there is only a request for around $15 million in the fund. It seems to me it really shortchanges the whole effort of what we were trying to do by creating a fund. I know it's monetary, but it is important that we have established that fund, and now not to fund it, at least in a reasonable manner above that level, just boggles my mind.

SEXUAL HARASSMENT

I notice that the Justice Department forfeiture fund is in the $60 million range. That's $36 million below what it was the year before, so they have stepped up to the fact that they have to cut on the

appropriated side of it. But $15 million, in my judgment, just is not going to serve the purpose of that fund.

I would hope that you would look at that, and assuming we can find some dollars someplace in the markup for this, that you would submit it.

Secretary BENTSEN. I will take a look.

Senator DECONCINI. Also, Mr. Secretary, I am going to submit questions regarding the Federal Law Enforcement Training Center. The question is, Do you support the question of consolidated law enforcement training through the Federal Center? And what influence can you have outside the Treasury Department in the administration to attempt to keep other law enforcement agencies from establishing their own training centers?

I know you don't need that at the Cabinet level, but I would hope that that would be on your mind.

Secretary BENTSEN. I share that concern. It's a frustration, because I just think it's needless duplication.

Senator DECONCINI. I hope you can raise it, Mr. Secretary, truthfully to these other agencies, wherever you all just sit down and talk shop, because it just doesn't make sense. We already have a couple going that we shouldn't have.

I want to talk about a very sensitive subject, Mr. Secretary, and compliment you for the letter you wrote me regarding sexual harassment in the Treasury Department, particularly dealing with Alcohol, Tobacco and Firearms.

Just for the record, would you outline for this committee what steps you have taken to assure that the Treasury Bureaus are evaluated in an objective and responsible manner to ensure that there is not, and will not be, an environment in the Bureaus which fosters sexual harassment?

Secretary BENTSEN. Mr. Chairman, I certainly will. I would say that to the extent that any such allegations are true, they are totally unacceptable and certainly deeply regrettable. The inspector general is aggressively pursuing the issue. He completed field work at the end of April. The ATF has put together a review team as well, and that report will be issued to the Assistant Secretary by May 28, 1993.

I am looking into the matter at a Departmentwide level and have established an advisory panel to review policies regarding sexual harassment. I have issued a letter to all Department employees that reaffirms the Department's policy of guaranteeing a workplace that is free of sexual harassment, and I would be happy to provide a copy for the record.

Senator DECONCINI. I think it would be good to have it in the record.

[The letter follows:]

MEMORANDUM

APRIL 21, 1993.

To: All Treasury employees.
From: Lloyd M. Bentsen.
Subject: Sexual Harassment Policy.

I want to take this opportunity to reaffirm the Department of the Treasury's commitment to providing a work environment that is free of sexual harassment. Sexual harassment is illegal, disrespectful of an individual's rights and damaging to all em-

ployees. This behavior includes unwelcome sexual advances, requests for sexual favors, and other verbal or physical conduct of a sexual nature when—

—Submission to or rejection of such conduct is made either explicitly or implicitly a term or condition of employment;

—Submission to or rejection of such conduct is used as a basis for employment decisions affecting an individual; or

—Such conduct interferes with an individual's work performance or creates an intimidating, hostile or offensive work environment.

I want to make certain that acts of sexual harassment are not condoned or tolerated and that reprisal does not occur when employees report such incidents. Accordingly, the following actions have been taken to ensure that Treasury's sexual harassment prevention programs are effective:

(1) I have commissioned an advisory panel and working group to review internal and external programs and to recommend changes and improvements on a departmentwide basis.

(2) Each bureau head has been directed to establish and publish a telephone hotline within the next 30 days to enable employees to report acts of sexual harassment, both to the bureau head and the Department's Inspector General.

(3) The Department's discrimination complaint process has been modified to allow employees to have their allegations of sexual harassment simultaneously brought to the attention of the bureau head and the Inspector General.

I want to assure each of you that you are free to report any incident involving sexual harassment. Management will take prompt and appropriate action whenever an allegation of sexual harassment is brought to its attention, including the swift disciplining of any employee who is found guilty of violating the Department's policy.

PROMOTION OF WOMEN

Senator DECONCINI. Mr. Secretary, let me also ask you a question with regard to the so-called glass ceiling and female promotion in law enforcement.

Last year, GAO reviewed the minority and women hiring and promotion practices within all of the Federal law enforcement agencies. I am concerned over GAO's finding on the underrepresentation of women at the highest grade levels, especially the senior levels of policymaking positions. The most shocking fact is that out of 342 senior executives within the criminal investigator job series, there are no white or minority women among those 342 senior executives.

I have discussed this with many law enforcement heads. Mr. Secretary, what is the Treasury Department doing to ensure that each Bureau will provide this access to SES policymaking jobs?

Secretary BENTSEN. Well, we're doing it across the whole Department, and that would certainly include what's done in law enforcement, no question about it.

Senator DECONCINI. Do you have any targets? I realize we can't talk of quotas as such, but are there any targets or objectives of where the Treasury Department ought to be, in your mind?

Secretary BENTSEN. No; I don't, but we're doing a full review that is going to take several months, because it's an extensive and intensive one insofar as concerns organization, hiring practices, gender, race, ethnicity, all of that. That will be addressed, but I don't have a so-called target.

Senator DECONCINI. I know, Mr. Secretary, when you were here in this body, you were a leader in working on legislation, and I compliment you for taking that spirit with you and urge that the sooner those kinds of things are put into place and publicly known, the better it is for all of us.

Secretary BENTSEN. I'm sure it is.

Senator DECONCINI. And for our oversight, as well as your Department, I compliment you for that commitment.

I am going to submit questions on the foreign asset control area, Mr. Secretary, that staff can answer, and law enforcement staffing with which I have some real concerns.

Also I am going to submit some questions on the high-intensity drug trafficking areas. I think I know your position on it, but I'd like to have it for the record; the Treasury criminal referral areas; and one question on protection of former Presidents, which is an interesting subject matter. I don't know if you've had a lot of time to dwell on it, but I would welcome your opinion on it.

PROTECTION OF FORMER PRESIDENTS

You know, former President Nixon has his own contract for security.

Secretary BENTSEN. I know he does.

Senator DECONCINI. Having talked to his people, his view of it is quite extraordinary; not only the money it saves, but the protection and the freedom he feels he has. On the other hand, other former Presidents, feel very strongly the other way, that there can be no substitute for full 8-hour shifts, 24 hours a day, of Secret Service covering them.

I would like you to look at this, particularly in light of the Secret Service's interviews with the former Presidents and former First Ladies. If you have any opinion, fine; if you don't, it's OK, too. I'm just interested in your knowledge and your observation on what should be done, if anything, to try to reduce a few million dollars and at the same time not short-circuit the necessity of security.

Mrs. Johnson was one of the most cooperative ones of all, I am told. They all cooperated in talking to the Secret Service, but she apparently said, "Whatever you do is going to be fine with me."

Secretary BENTSEN. That's what she said. She said she would comply with whatever they wanted. And President Bush said that. The other former Presidents told Director Magaw when he talked with them that they feel they need their protective detail for the rest of their lives. Those were their responses.

Senator DECONCINI. Good. Maybe you don't have any further comments, or if you do—I'm just trying to find a realistic approach, that as time goes by and the threat lessens——

Secretary BENTSEN. I would think that over a period of time there should be a lessening of the need.

Senator DECONCINI. Leave it to the authority of the Secretary and the Secret Service Director not to reduce it if there is some threat. I don't think that anybody is suggesting that anybody be in jeopardy, but we should look at it, and I thank you very much.

Mr. Secretary, I have some questions here from the Senator from Iowa, Senator Grassley, regarding a Treasury report on terrorist assets, and I will submit them to the staff, if you would be so kind as to answer them. There is a lot of information here.

Secretary BENTSEN. Happy to have them.

Senator DECONCINI. Do you have any further questions?

Senator KERREY. Just one.

Mr. Secretary, probably one of the biggest potential problems in dollar terms is the Resolution Trust Corporation's efforts to resolve the failed savings and loans. The administration requested $28 billion to cut the backlog; $17 billion to resolve failed S&L's; and there was also contained in there a recommendation to fold RTC and FDIC after September 1, as I understand it.

I've got some real concerns about whether or not we're making a mistake by doing that. I would just like the opportunity sometime to come downtown and talk to you about that.

Secretary BENTSEN. I'd be happy to. Let me tell you that one of the problems we've run into, Senator, is trying to hire someone to run it. If they think they're going to be running it for 6 months, how do you get somebody to sign up for that? That's part of the problem.

Senator KERREY. It is a problem. And the structure of it still doesn't give whoever is running it the kind of authority that they need, and that's been a continuing problem with the RTC. There has been so much divided authority that it's always easy to undercut that authority from one of several different directions.

I'm just generally concerned that we not rush to put this thing behind us, kind of stuff this thing into FDIC—that may be a poor verb—but I am worried that we're going to end up with something that is going to be a lot worse, not a lot better. Of course, at this stage of the game it is something that you've inherited, something that we can evaluate with a clean slate. I'm going to be constructive in that regard. I have some ideas; some may be good, some may be bad. I'd just like to talk to you.

Secretary BENTSEN. I would be delighted to talk to you about it. It's very tough to bring about an orderly liquidation with the ultimate savings of money to the taxpayers, to the extent that you can, and to get effective and efficient people in there to run it. We now have Roger Altman doing oversight, but he has other things that he has in the way of responsibilities, while we diligently search. I'm sure no one is searching harder than he is for someone to run that entity.

Senator KERREY. Would you recommend that I just communicate directly with Roger on this?

Secretary BENTSEN. That would be good. Yes, fine.

I tell you who else we might communicate with, and that's Frank Newman, the Under Secretary of Domestic Finance.

Senator KERREY. I will do that.

Senator DECONCINI. Mr. Secretary, I also have a question on the Btu tax relating to the airlines. I don't know if the administration has a position or not, but I would appreciate whatever analytical information you can give us from your operation, because it greatly concerns me. We have small airlines in my State, as you do in your State of Texas, that are really on the margin, and this Btu tax could be very detrimental to them. I am trying to find out just how detrimental it might be and I can't seem to get any information on it, outside of the airlines. Not that I doubt them, but I would like to have some justification or clarification.

Secretary BENTSEN. We took it off the international flights, you know.

Senator DECONCINI. Yes; I know you did, and that's certainly helpful. Unfortunately, our little airline in Arizona doesn't go international anymore.

SUBMITTED QUESTIONS

Mr. Secretary, thank you very much. We have a host of questions here. We appreciate the cooperation of your staff and your testimony today.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR DeCONCINI

Personnel Reductions

Question: Mr. Secretary, I am very concerned about the impact the proposed personnel reductions will have on the Treasury law enforcement bureaus. The President's Executive Order calls for a reduction in staffing by 1 percent in fiscal year 1993 and 1.5 percent in fiscal years 1994 and 1995. Under this scenario, the Treasury law enforcement bureaus will be required to reduce a total estimated 776 FTEs by the end of FY 1994. I am concerned that this staffing reduction will have an adverse affect on federal law enforcement's ability to perform its mission. I also find it hard to understand the Administration's reasoning for cutting federal law enforcement and at the same time proposing to fund a new initiative to put 100,000 police officers on the street. When I heard about the President's Executive Order I was under the impression that its goal was to reduce the size of government but do it in those activities which affect government operations and not necessarily delivery of services to the public. Yet, the budgets I have reviewed for the Treasury law enforcement bureaus appear that you are cutting agents, inspectors, canine teams, etc.

-- Mr. Secretary, what guidance, if any, did you give your bureaus on where these personnel reductions should be taken?

Answer: In response to the President's Executive Order, I issued a policy memorandum on March 12, 1993, identifying long term goals and interim measures. I believe that government must emulate the private sector in learning to do more with less. In my memorandum, I made the following points:

-- This cannot be a top down effort, since each program will recognize the best strategies for achieving the goals.

-- Until each bureau submits a staffing plan for meeting its fair share of the requirement, its hiring is limited to three recruits per four vacancies.

-- Expenditures for consulting services may not exceed currently budgeted levels.

-- An appeals process is available for unique cases.

My memorandum was followed up with guidance issued by the Office of the Assistant Secretary (Management), which in part made the following points:

-- The sacrifice of service, performance, and revenue cannot occur without justification, and specifically must be related to National Performance Review objectives for reinventing government to achieve higher productivity with fewer resources.

-- The Secretary wants the Treasury Department to be a front runner in these efforts.

-- Each bureau should offer recommendations for serious streamlining of operations related to its unique situation. Recommendations should capture the efficiencies of approaches such as: alternate work distributions or staffing consolidations for greater economies of scale; "flattening" of management structures; increased spans of control where changed conditions or advanced technology make it feasible; reliance on market forces by such mechanisms as user funding to achieve greater selectivity in establishing priorities; and contracted services in lieu of direct staffing.

Question: Do you believe the personnel cuts as proposed in the budgets can be made without affecting the law enforcement missions and caseloads of these agencies? If so, how?

Answer: As you know, Mr. Chairman, we have essentially two-and-a-half years to accomplish these reductions. Our goal is to reduce personnel levels by 1 percent at the end of FY 1993, two-and-a-half percent by the end of FY 1994, and 4 percent by the end of FY 1995. We believe we can accomplish this through carefully managed attrition, whereby critical operational positions are maintain while others are eliminated as a result of productivity improvements and other cost savings measures.

Each Treasury bureau, including the law enforcement bureaus, have been asked to submit staffing plans describing on how they plan to accomplish their personnel reduction targets over the two-and-a-half year period. We will review these plans to assure that they are reasonable and can be accomplished in a cost effective manner, and will not undermine our ability to perform our varied missions. If adjustments to staffing targets across bureaus are deemed appropriate, they will be made. However, it is our intent to achieve the overall FTE reduction level for the Department proposed by the President.

Question: What about the future year cuts, how are the additional staffing reductions in fiscal year 1995 and beyond going to be achieved?

Answer: At present, staffing levels beyond FY 1995 have not been determined. When and if further reductions are proposed, Treasury will continue to work with its bureaus on a case by case basis to determine how best to meet the staffing targets while continuing to provide essential services.

Question: Will reductions in inspectors for fiscal year 1994 be taken in ports along the southwest border?

Answer: I am pleased to report that Customs will utilize an additional 150 full-time equivalent inspector positions along the Mexican border in 1994 with funds from the Salaries and Expenses Appropriation and COBRA. This will bring to 300 the total number of additional inspector positions assigned to the Southwest border in FY 1993 and FY 1994.

Question: What will happen if these personnel reductions cannot be achieved through attrition?

Answer: Our expectation is that normal attrition will achieve the necessary reductions. However, if we find that our staffing targets cannot be met in this manner, we will consider other options, such as retirement incentives and early outs.

Question: What oversight, if any, did Treasury exercise to ensure that the mandated 10 percent reduction in staffing occur in the SES, GS-15 and GS-14 levels within the Treasury Department bureaus?

Answer: In determining overall FTE reduction targets by bureau, Treasury also calculated each bureau's pro-rata share of the GS/GM-14/15 and SES reduction. These targets where provided to the bureaus and strategies to meet them are being incorporated in the bureaus' staffing plans.

Customs Air and Marine, Operations and Maintenance Account

Question: Mr. Secretary, for fiscal year 1994, the Administration has requested $83,090,000 for the Customs Air and Marine, Operations and Maintenance Account. However, the President's budget proposes to fund $37,027,000 of this amount from unobligated balances available to Customs from previous years. This really bothers me for 2 reasons. First, by using unobligated balances, you are reducing the base funding for the account come fiscal year 1995. Second, when the Committee reviewed the unobligated balances, we made it clear to Treasury in a letter dated March 11, 1993, that I expected these funds to be used for other urgent Customs requirements like permanent change of station moves to support the integrity program, personal computers for inspection and commercial operations to facilitate the processing of merchandise, and other items.

-- Can you tell me how the decision was made to use the unobligated balances in this account against the fiscal year 1994 appropriation request?

Answer: In a letter of May 7, 1993, my staff informs you of the use of the unobligated balances for this account. As mentioned in this letter, the decision was made to free appropriation dollars for other high priority initiatives within Treasury in fiscal year 1994. Although the appropriation request for fiscal year 1994 reflects the use of the unobligated balance, the base funding for fiscal year 1995 for the Customs Air and Marine, Operations and Maintenance Account will be $83,090,000. It is not Treasury's intention to reduce the operating level of this account.

Question: OMB testified on Tuesday that Treasury basically offered the use of these unobligated balances for the air and marine program in fiscal year 1994. Why would Treasury do that when you have enormous unfunded requirements this year in Customs that cannot be met?

Answer: We believe this approach is in the best interest of the Government, given the President's efforts to control Federal spending.

Treasury Forfeiture Fund

Question: For fiscal year 1994 you are requesting $15 million in funding for the discretionary expenses of the newly established Treasury Forfeiture Fund. Mr. Secretary, as you recall when you were Chairman of the Finance Committee, your predecessor Secretary Brady and I wanted to establish this new fund to provide the Treasury law enforcement bureaus with the proceeds derived from forfeited assets as a result of their own investigations. The sad fact was that there was no way to ensure fair treatment from Treasury's participation in the Justice Fund and conflicts on sharing were getting out of hand. As you know, the discretionary activities of the Fund are paid for out of the appropriated account. Such items as awards for information; purchases of evidence; equipping of vehicles and vessels; overtime salaries, fuel, training and equipment of state and locals who participated in the joint investigations, are covered through the appropriation.

Mr. Secretary, the annual appropriation for the Customs Forfeiture Fund was $15 million. The Treasury Fund, which I would assume would greatly exceed the Customs Fund due to the participation of IRS, Secret Service, FLETC, FinCEN and others, is only proposed to be funded at a level of $14.77 million in fiscal year 1994. After we fought so hard to get this Fund established, I can't understand why Treasury didn't request an adequate level of funding to take full advantage of the proceeds from seized assets available in through the Fund. When we formulated the legislation establishing the Fund we were contemplating appropriations of approximately $100 million per year, comparable to that of the Justice Fund. The Justice Fund, as you may know, is requesting $63 million in fiscal year 1994 or $36 million less than the previous years. I assume this reduction is related to the fact that Treasury bureaus now have their own Fund and will not participate in the Justice Fund.

Can you explain to me why this Fund is only being funded at a level of $14.77 million in fiscal year 1994?

What was your request to OMB for the Fund for fiscal year 1994?

Answer: When Treasury made its initial FY 1994 request to OMB in September of 1992, the FY 1993 Treasury Postal Appropriations Bill had not yet been passed. As a result, the Treasury Forfeiture Fund did not yet exist, and Treasury requested funding only for the Customs Forfeiture Fund. This funding request was for $15 million.

Question: It defeats the purpose if the Fund is established and funds are insufficient to fully implement it as Congress intended. As a matter of fact, it penalizes the Treasury bureaus that were participants in the Justice Fund who now will be getting very limited expenses covered due to a lack of appropriations.

How much money does Treasury estimate will be coming into the Fund in fiscal year 1994?

Answer: The President's Budget estimates that collections to the Fund in FY 1994 will total $309 million.

Question: How much do you estimate will be available for nondiscretionary purposes?

Answer: The President's Budget indicates that $294 million will be available for nondiscretionary purposes in FY 1994.

Question: Since the enactment of the legislation, can you give me a status report on agency participation in the Fund, the number of seizures thus far by agency, and the effect it has had on criminal investigation of Treasury bureaus?

Answer: The Treasury Forfeiture Fund legislation allows for a transition year in FY 1993 to prepare for Department-wide application of the Fund in FY 1994. During FY 1993, the only fully participating Treasury bureau in the Fund is the Customs Service. With the beginning of FY 1994, the Internal Revenue Service, Alcohol, Tobacco and Firearms and the U.S. Secret Service will withdraw from the Department of Justice Forfeiture Fund and become full participants in the Treasury Forfeiture Fund. So far in FY 1993, the Customs Service, operating under many of the same rules and allowances existing under the prior Customs Forfeiture Fund, has made over 32,000 seizures (through April).

Question: During the consideration of the legislation to establish the Treasury Fund, then Attorney General Barr and certain Congressional members wanted to ensure that standards and guidelines for seizures and forfeitures were consistent with those in place at the Department of Justice. Former Assistant Secretary Nunez gave me assurances that he would work toward the development of a memorandum of understanding with Justice to ensure consistency on standards and guidelines for the 2 Funds.

Can you tell me the status of this MOU--has one been formulated and if so, has it been signed and implemented by both Departments?

Answer: The policies and guidelines of the Justice Department have been adopted or modified slightly to accommodate Treasury's needs and distributed to the Treasury law enforcement bureaus for comment. After the comments from the bureaus are received, the policies and guidelines will be issued. The differences between Justice and Treasury are minimal and will have no impact on the public.

Question: What has been the relationship with the Department of Justice thus far on the establishment of the Treasury Fund?

The Justice and Treasury Executive Offices for Asset Forfeiture have worked in concert on several issues. Both Directors have appeared at Conferences to explain the roles of both offices and to emphasize the similar policies applying to all of the investigative bureaus doing forfeiture work.

Question: One of the big issues which was raised during consideration of the Treasury Forfeiture Fund was the protection of innocent third parties. This issue almost brought down the legislation because a lot of members, including myself, have concerns about innocent owners being subjected to seizure and forfeiture proceedings. This subcommittee wants to ensure that any expanded forfeiture authority is prudently used to take the profit out of crime but not to deprive innocent parties of their property that is used in some criminal activity without the knowledge of the owner.

Therefore, for the record, can you provide the Committee with the following:

-- a list of all real property seized by the Treasury law enforcement bureaus who have seizure and forfeiture authority?

-- a list of the Treasury bureaus which have facilitation seizure authority in addition to authority to seize proceeds;

-- the number and types of cases, in the past 5 years that have involved the seizure of forfeiture of real property;

-- the Treasury policies and procedures which protect innocent owners, i.e. an individual who happens to own a home in which another individual is conducting illegal activities from arbitrary seizure.

Answer: For fiscal year 1993, the Customs Service is the only Treasury law enforcement agency who fully participates in the Treasury Forfeiture Fund. Attached is a list of seized real properties from Customs that our contractor, EG & G, presently manages.

Other Treasury law enforcement agencies (USSS, ATF, IRS) that have seized real property currently use the U.S. Marshal Service in Justice to manage their property. By fiscal year 1994 these three agencies will fully participate in the TFF. Also included in the attached list are the real properties for ATF, USSS, and IRS. Please note that appraised values (APV) are the dollar values assigned at the time of seizure and does not necessarily reflect the fair market value at the time of disposition.

TREASURY FORFEITURE FUND
SEIZED REAL PROPERTY

Agency	Seizure Date	Description	APV	Location
ATF	5/93	LD	120,000	Burlington, VT
USSS	10/6/92	CE	380,080	Washington, D.C.
USSS	4/28/93	RS	145,000	Sterling, VA
USSS	4/28/93	RS	145,000	Falls Church, VA
USSS	3/11/93	RS/LD	12,000,000	Nuttontown, NY
USSS	9/22/92	RS	1,700,000	Mt. Clemens, MI
USSS	8/28/92	RS/LD	105,080	Texarkana, TX
USSS	11/18/92	CE	380,000	Bayamon, PR
USSS	11/18/92	LD	80,000	Bayamon, PR
USSS	2/22/93	RS	78,000	Albuquerque, NM
USSS	2/6/92	RS	500,000	South Pasadena, CA
USCS	11/10/88	RS	110,000	New York City, NY
USCS	7/23/91	CE	635,000	New York City, NY
USCS	7/23/91	CE	565,000	New York City, NY
USCS	7/23/91	CE	250,000	New York City, NY
USCS	4/9/93	RS	8,070	Wilmington, NC
USCS	4/9/93	LD	84,500	Wilmington, NC
USCS	4/9/93	RS	62,700	Wilmington, NC
USCS	4/9/93	LD	39,355	Wilmington, NC
USCS	4/9/93	LD	10,590	Wilmington, NC
USCS	4/9/93	LD	4,000	Wilmington, NC
USCS	4/9/93	LD	36,000	Wilmington, NC
USCS	4/9/93	LD	4,000	Wilmington, NC
USCS	4/9/93	LD	2,000	Wilmington, NC
USCS	4/9/93	LD	6,895	Wilmington, NC
USCS	4/9/93	LD	2,282	Wilmington, NC
USCS	4/9/93	RS	100,000	Wilmington, NC
USCS	4/9/93	RS	64,000	Wilmington, NC
USCS	3/1/93	RS	62,000	Savannah, GA
USCS	1/29/92	LD	88,000	Tampa, FL
USCS	2/7/92	CE	735,000	Tampa, FL
USCS	2/7/92	CE	1,800,000	Tampa, FL
USCS	8/24/92	RS	95,000	Tampa, FL
USCS	11/3/92	RS	65,000	Tampa, FL
USCS	10/28/92	CE	100,000	Tampa, FL
USCS	7/12/90	LD	35,000	Mobile, AL
USCS	7/12/90	LD	20,000	Mobile, AL
USCS	11/5/92	CE	42,000	Mobile, AL
USCS	5/3/93	LD	229,000	Mobile, AL
USCS	8/28/92	RS	295,000	New Orleans, LA
USCS	8/28/92	RS	92,000	New Orleans, LA
USCS	11/3/92	RS	37,000	New Orleans, LA
USCS	4/25/89	RS	90,000	Laredo, TX
USCS	10/29/89	LD	45,700	Laredo, TX
USCS	3/5/91	LD	35,000	Laredo, TX
USCS	4/22/93	RS	189,800	El Paso, TX

TREASURY FORFEITURE FUND
SEIZED REAL PROPERTY

Agency	Seizure Date	Description	APV	Location
USCS	4/22/93	RS	97,900	El Paso, TX
USCS	5/24/91	RS	150,000	San Diego, CA
USCS	6/21/91	RS	90,000	San Diego, CA
USCS	9/6/91	RS	180,000	San Diego, CA
USCS	5/17/90	LD	144,300	Nogales, AZ
USCS	5/17/90	LD	269,900	Nogales, AZ
USCS	5/17/90	LD	20,000	Nogales, AZ
USCS	5/15/90	RS	130,000	Nogales, AZ
USCS	5/15/90	RS	63,000	Nogales, AZ
USCS	5/15/90	LD	10,000	Nogales, AZ
USCS	5/15/90	LD	10,000	Nogales, AZ
USCS	5/15/90	LD	10,000	Nogales, AZ
USCS	5/15/90	LD	10,000	Nogales, AZ
USCS	5/15/90	LD	10,000	Nogales, AZ
USCS	5/15/90	LD	10,000	Nogales, AZ
USCS	5/15/90	LD	10,000	Nogales, AZ
USCU	5/15/90	LD	10,000	Nogales, AZ
USCS	5/15/90	LD	150,000	Nogales, AZ
USCS	6/17/91	RS	150,000	Nogales, AZ
USCS	6/17/91	RS	110,000	Nogales, AZ
USCS	5/2/91	APC	285,000	Nogales, AZ
USCS	6/5/92	RS	215,000	Nogales, AZ
USCS	4/29/92	RS	62,500	Nogales, AZ
USCS	8/12/92	CE	50,000,000	Los Angeles, CA
USCS	9/22/92	LD	9,000,000	Los Angeles, CA
USCS	9/22/92	CE	9,075,000	Los Angeles, CA
USCS	2/1/93	RS	2,800,000	Los Angeles, CA
USCS	1/22/93	RS	350,000	Los Angeles, CA
USCS	1/22/93	RS	350,000	Los Angeles, CA
USCS	5/21/91	RS	610,000	San Francicso, CA
USCS	6/23/92	LD	115,000	Seattle, WA
USCS	2/9/93	LD	37,500	Seattle, WA
USCS	2/9/93	RS	62,000	Seattle, WA
USCS	2/9/93	LD	52,000	Seattle, WA
USCS	2/9/93	LD	30,000	Seattle, WA
USCS	2/9/93	LD	26,500	Seattle, WA
USCS	10/18/90	RS	2,000,000	Great Falls, MT
USCS	1/16/91	RS	600,000	Great Falls, MT
USCS	11/25/91	CE	50,000	Great Falls, MT
USCS	11/25/91	RS	185,000	Great Falls, MT
USCS	2/12/92	LD	120,000	Great Falls, MT
USCS	2/12/92	LD	120,000	Great Falls, MT
USCS	1/20/93	APC	53,800	Great Falls, MT
USCS	1/20/93	CE	711,800	Great Falls, MT
USCS	1/21/93	LD	60,000	Great Falls, MT
USCS	1/21/93	LD	600,000	Great Falls, MT

TREASURY FORFEITURE FUND
SEIZED REAL PROPERTY

Agency	Seizure Date	Description	APV	Location
USCS	1/23/93	LD	100,000	Great Falls, MT
USCS	3/24/93	LD	120,000	Great Falls, MT
USCS	5/5/93	RS	397,000	Great Falls, MT
USCS	11/6/91	APC	650,000	Detroit, MI
USCS	11/6/91	APC	22,800	Detroit, MI
USCS	11/6/91	APC	20,000	Detroit, MI
USCS	11/6/91	APC	57,000	Detroit, MI
USCS	3/10/92	RS	28,000	Detroit, MI
USCS	3/10/92	LD	2,500	Detroit, MI
USCS	3/10/92	RS	28,000	Detroit, MI
USCS	3/10/92	RS	25,000	Detroit, MI
USCS	3/10/92	RS	23,000	Detroit, MI
USCS	3/10/92	LD	19,000	Detroit, MI
USCS	7/18/91	LD	8,000	Cleveland, OH
USCS	7/18/91	LD	8,000	Cleveland, OH
USCS	9/16/91	RS	228,000	San Juan, PR
USCS	7/27/88	RS	166,000	Miami, FL
USCS	3/5/91	RS	127,000	Miami, FL
USCS	2/25/91	RS	1,200,000	Miami, FL
USCS	2/25/91	RS	270,000	Miami, FL
USCS	3/7/91	LD	55,000	Miami, FL
USCS	4/30/91	RS	240,000	Miami, FL
USCS	5/21/91	CE	175,000	Miami, FL
USCS	4/30/91	RS	110,000	Miami, FL
USCS	7/31/91	RS	44,000	Miami, FL
USCS	3/13/91	RS	129,900	Miami, FL
USCS	8/4/92	RS	163,000	Miami, FL
USCS	5/12/92	RS	275,000	Miami, FL
USCS	4/22/93	RS	317,000	Miami, FL
USCS	4/22/93	RS	650,000	Miami, FL
USCS	10/6/92	RS	260,000	Houston/Galveston, TX
USCS	10/6/92	RS	139,000	Houston/Galveston, TX
USCS	6/19/92	LD	64,000	Dallas/Fort Worth, TX
IRS	11/5/92	LD	7,000	New Bern, NC
IRS	10/7/92	CE	200,000	Memphis, TN
IRS	10/7/92	CE	200,000	Memphis, TN
IRS	10/7/92	CE	175,000	Memphis, TN
IRS	10/7/92	CE	385,000	Memphis, TN
IRS	10/7/92	RS	93,000	Memphis, TN
IRS	10/7/92	RS	79,000	Memphis, TN
IRS	11/4/92	LD	67,000	Talladega, AL
IRS	11/4/92	LD (V)	49,500	Talladega, AL
IRS	11/4/92	LD	43,500	Talladega, AL
IRS	10/29/92	RS	49,000	Chattanooga, TN
IRS	12/3/92	RS/LD	65,000	Thomasville, NC
IRS	2/26/93	RS/LD	52,000	Okolona, AR

TREASURY FORFEITURE FUND
SEIZED REAL PROPERTY

Agency	Seizure Date	Description	APV	Location
IRS	11/5/92	RS/LD	98,000	Franklinville, NC
IRS	1/15/93	LD (V)	2,500	Florence, AL
IRS	1/15/93	RS	40,000	Florence, AL
IRS	2/12/93	RS	35,000	Hot Springs, AR
IRS	1/6/93	RS/LD	100,000	Taylorsville, NC
IRS	1/6/93	LD	35,000	Taylorsville, NC
IRS	3/24/93	LD	100,000	Texarkana, AR
IRS	3/16/93	LD	68,000	Deland, FL
IRS	12/10/92	RS	42,000	Erie, PA
IRS	10/16/92	RS	103,993	Woodlands, TX
IRS	10/16/92	RS	68,000	Houston, TX
IRS	10/16/92	LD	18,523	N. Madisonville, TX
IRS	10/16/92	RS	6,000	Houston, TX
IRS	10/1/92	CE	373,650	Bluefield, VA
IRS	10/1/92	CE	25,000	Bluefield, VA
IRS	10/1/92	CE	42,200	Bluefield, VA
IRS	12/8/92	RS	42,000	Bluefield, VA
IRS	12/8/92	RS	32,000	Bluefield, VA
IRS	10/21/92	CE	450,000	Luna City, NM
IRS	10/21/92	RS	18,247	Deming, NM
IRS	10/21/92	LD	113,000	Luna County, NM
IRS	10/21/92	CE	240,000	Deming, NM
IRS	10/21/92	RS	75,000	Las Cruces, NM
IRS	10/21/92	CE	38,000	Columbus, NM
IRS	10/21/92	LD	23,000	Luna County, NM
IRS	10/21/92	RS	50,000	Luna County, NM
IRS	10/21/92	LD	40,000	Deming, M
IRS	10/21/92	LD	15,000	Luna County, NM
IRS	10/21/92	LD	12,500	Luna County, NM
IRS	10/21/92	CE	120,000	Luna County, NM
IRS	10/21/92	LD	100,000	Luna County, NM
IRS	10/21/92	LD	130,000	Luna County, NM
IRS	10/21/92	LD	50,000	Luna County, NM
IRS	10/21/92	LD	23,000	Luna County, NM
IRS	10/21/92	CE	40,000	Luna County, NM
IRS	10/21/92	LD (V)	30,000	Luna County, NM
IRS	10/21/92	LD	10,000	Deming, NM
IRS	10/21/92	LD	10,000	Columbus, NM
IRS	10/21/92	RS	200,000	Las Cruces, NM
IRS	10/21/92	LD	50,000	Deming, NM
IRS	10/21/92	LD	40,000	Deming, NM
IRS	10/21/92	RS	300,000	Dona Ana County, NM
IRS	10/21/92	LD	25,000	Luna County, NM
IRS	10/21/92	LD	12,500	Luna County, NM
IRS	10/21/92	LD	40,000	Luna County, NM
IRS	10/21/92	LD	40,000	Deming, NM

TREASURY FORFEITURE FUND
SEIZED REAL PROPERTY

Agency	Seizure Date	Description	APV	Location
IRS	10/21/92	RS	105,000	Deming, NM
IRS	10/21/92	LD	175,000	Maricopa County, AZ
IRS	10/21/92	RS	250,000	Las Cruces, NM
IRS	10/21/92	LD	209,000	Las Cruce, NM
IRS	10/21/92	RS	208,000	Glendale, AZ
IRS	10/21/92	RS	50,000	Luna County, NM
IRS	10/21/92	CE	140,000	Dona Ana County, NM
IRS	10/21/92	LD	70,000	Deming, NM
IRS	10/21/92	CE	50,000	Deming, NM
IRS	10/21/92	LD	15,000	Blue Mound Estate, NM
IRS	10/21/92	LD	48,000	Luna County, NM
IRS	10/21/92	CE	38,000	Dona Ana County, NM
IRS	10/21/92	LD	135,000	Las Cruces, NM
IRS	10/21/92	LD	16,500	Wallis, NM
IRS	10/21/92	RS	27,000	Glendale, NM
IRS	10/21/92	CE	434,000	Mesilla Park, NM
IRS	10/21/92	LD	20,000	Dona Ana County, NM
IRS	10/21/92	CE	80,000	Columbus, NM
IRS	10/21/92	RS	69,000	Phoenix, AZ
IRS	10/21/92	CE	95,500	Luna County, NM
IRS	10/21/92	LD	45,000	Luna County, NM
IRS	11/12/92	RS	325,000	Littleton, CO
IRS	11/12/92	RS	150,000	Denver, CO
IRS	11/12/92	RS	80,000	Denver, CO
IRS	11/12/92	RS	150,000	Denver, CO
IRS	11/16/92	LD	13,000	Fairplay, CO
IRS	2/24/93	LD	45,140	Osage County, OK
IRS	3/31/93	RS	45,000	Greeley, CO
IRS	10/29/92	CE	247,670	New York, NY
IRS	10/29/92	CE	339,602	New York, NY
IRS	10/29/92	CE	21,000	New York, NY
IRS	12/18/92	CE	170,000	Glenmont, NY
IRS	11/30/92	CE	550,000	Jamaica, NY
IRS	11/30/92	CE	192,000	North Valley Stream, NY
IRS	11/30/92	CE	175,000	Farmingdale, NY
IRS	11/30/92	CE	490,000	Great Neck, NY
IRS	11/30/92	CE	295,000	Bergen Field, NJ
IRS	11/30/92	CE	301,000	South Brunswick, NJ
IRS	2/22/93	RS	225,000	Andover, MA
IRS	2/22/93	RS	350,000	Andover,, MA
IRS	10/23/92	RS	70,000	Lansing, MI
IRS	10/23/92	RS	15,000	Lansing, MI
IRS	12/04/92	RS	130,000	Grove City, OH
IRS	1/27/93	RS	100,000	Lansing, MI
IRS	1/21/93	RS	190,000	Portage, IN
IRS	1/21/93	RS	95,000	Portage, IN

TREASURY FORFEITURE FUND
SEIZED REAL PROPERTY

Agency	Seizure Date	Description	APV	Location
IRS	1/21/93	RS	55,000	Portage, IN
IRS	1/21/93	RS	94,000	Portage, IN
IRS	1/21/93	RS	165,000	Valparaiso, IN
IRS	1/21/93	LD	80,000	Valparaiso, IN
IRS	10/2/92	RS/LD	750,000	San Jose, CA
IRS	11/5/92	RS	111,850	Lake Oswego, OR
IRS	11/2/92	LD	5,890	Portland, OR
IRS	11/2/92	LD	47,500	Portland, OR
IRS	11/2/92	LD	2,590	Portland, OR
IRS	11/2/92	RS	96,500	Portland, OR
IRS	10/14/92	RS	115,000	Garden Grove, Ca
IRS	10/1/92	CE	188,000	Portland, OR
IRS	11/12/92	RS	69,040	Seattle, WA
IRS	11/12/92	RS	60,300	Seattle, WA
IRS	11/12/92	RS	88,500	Seattle, WA
IRS	11/06/92	LD	1,600,000	Maui, HI
IRS	11/12/92	RS	58,700	Seattle, WA
IRS	11/12/92	RS	69,600	Seattle, WA
IRS	11/12/92	RS	82,400	Seattle, WA
IRS	11/12/92	RS	101,700	Seattle, WA
IRS	12/17/92	LD	10,000,000	San Diego, CA
IRS	1/8/93	LD (V)	325,000	San Diego, CA
IRS	1/15/93	RS	170,000	Fairfield, CA
IRS	1/15/93	RS	200,000	Fairfield, CA
IRS	11/13/92	RS	90,000	Las Vegas, NV
IRS	11/13/92	RS	27,500	Las Vegas, NV
IRS	1/22/93	RS	97,300	Eatonville, WA
IRS	2/10/93	RS	500,000	Hughson, CA
IRS	2/10/93	RS	145,000	Carlsbad, CA
IRS	2/9/93	RS	265,000	Los Angeles, CA
IRS	2/9/93	RS	240,000	Montebello, CA
IRS	2/9/93	RS	245,000	Cudhay, CA
IRS	2/9/93	RS	270,000	Los Angeles, CA
IRS	2/9/93	RS	575,000	Los Angeles, CA
IRS	2/9/93	RS	315,000	Los Angeles, CA
IRS	2/9/93	RS	432,000	El Monte, CA
IRS	2/9/93	LD	1,748,290	Grants Pass, OR
IRS	2/9/93	LD	185,270	Grants Pass, OR
IRS	2/9/93	LD	52,540	Grants Pass, OR
IRS	2/9/93	LD	72,590	Grants Pass, OR
IRS	2/16/93	RS	500,000	Melbourne Beach, CA
IRS	2/9/93	RS	150,000	Cloverdale, OR
IRS	2/25/93	RS	100,000	Modesto, CA
IRS	10/1/92	RS	72,200	Corbett, OR
IRS	11/13/92	LD (V)	79,000	Clackamas, OR
IRS	11/20/92	RS	58,000	Boring, OP

TREASURY FORFEITURE FUND
SEIZED REAL PROPERTY

Agency	Seizure Date	Description	APV	Location
IRS	12/11/93	RS	31,750	Gresham, OR
IRS	2/5/93	LD	150,465	Portland, OR
IRS	2/5/93	RS	68,000	Las Vegas, NV
IRS	2/8/93	RS	50,000	Kent, OH
IRS	3/19/93	RS	244,000	Carlsbad, CA
IRS	3/26/93	RS	116,000	Coeur D'Alene, ID
IRS	3/26/93	RS	102,000	Coeur D'Alene, ID
IRS	3/26/93	LD (V)	56,900	Riverside Harbor, ID
IRS	3/26/93	RS	35,000	Kellogg, ID
IRS	4/7/93	RS	375,000	Eatonville, WA
IRS	4/7/93	RS	375,000	Eatonville, WA
IRS	4/8/93	RS	100,000	Port Orchard, WA
IRS	1/2/93	APC	525,000	Rio Piedras, PR
IRS	1/22/93	LD	200,000	Rio Piedras, PR
IRS	1/22/93	LD	92,000	Rio Piedras, PR
IRS	1/22/93	LD	80,000	Rio Piedras, PR
IRS	1/22/93	LD	72,000	Rio Piedras, PR
IRS	1/22/93	LD	60,000	Rio Piedras, PR
IRS	2/26/93	LD	500,000	Cayey, PR
IRS	2/26/93	LD	500,000	Cayey, PR
IRS	2/26/93	LD	500,000	Cayey, PR
IRS	2/26/93	LD	500,000	Cayey, PR
IRS	2/26/93	LD	500,000	Cayey, PR
IRS	2/26/93	LD	2,000,000	Halto Rey, PR
IRS	2/26/93	APC	2,000,000	Old San Juan, PR
IRS	2/26/93	RS	450,000	Santurce, PR
IRS	2/26/93	CD	95,000	Santurce, PR
IRS	2/26/93	RS	90,000	Dorado, PR
IRS	2/26/93	RS	50,000	Trujillo Alto, PR
IRS	9/19/90	LD	350,000	Boise, ID
IRS	9/28/92	LD	169,000	Sacramento, CA

LD (V) = Land (Vacant), CE = Commercial Establishment, RS = Residence, APC = Apartment Complex, CD = Condominium

With respect to protecting innocent third parties, it is important to note that no real property has been seized or forfeited by the Treasury Department without the involvement of the Judiciary during the period in question. The seizure and forfeiture process for real property is filled with safeguards for the property owners both by Treasury policies and judicial due process. (Treasury Directives 3, 6, and 17 address some of these concerns.)

All of the Treasury investigative bureaus have facilitation seizure authority (ATF, IRS-CID, Customs, and Secret Service).

Treasury has drafted policies that address these concerns and there are safeguards built into the legal system relating to forfeitures. The basic legal safeguards are as follows:

-- Property can only be seized if there is probable cause to believe that it was involved in criminal activity that would make it subject to forfeiture. Treasury requires that the Judiciary, either a Judge or Magistrate, be involved in the determination of probable cause, except in exigent circumstances. With the involvement of the Judiciary, there should be virtually no instances of arbitrary seizures.

-- Additional safeguards for innocent owners are that they can have their case heard in Federal District Court by the posting of a Claim and Cost Bond equal to 10 percent of the value of the property with maximum of $5,000. In lieu of the Claim and Cost Bond, the innocent owner could file a Petition for Remission or Mitigation with the seizing agency and ask that their property to be returned. The agency's attorneys review the Petitions and make a recommendation regarding a case's disposition.

Internal Revenue Service

Question: Secretary Bentsen, I want you to know that my interest in CI is not to micromanage the IRS but to make sure that IRS is properly funding and equipping its CI division to make it as effective as it can be. I don't believe non-law enforcement personnel ought to be interfering with its ability to deploy resources and personnel to investigate cases. The former Attorney General, the Drug Czar, and the former Assistant Secretary for Enforcement at Treasury all supported the establishment of line authority for IRS. I am wondering if you can tell me if you have any personal views on IRS - CID having direct line authority for its law enforcement agents?

Answer: I have received the recommendations of the task force on this issue chaired by the former Commissioner of the IRS but have not yet had a chance to go over them. We are in the process of putting a new team in place at the Treasury Department and I would like to get the views of the incoming IRS Commissioner and the new Assistant Secretary for Enforcement before I decide how this should be handled.

Consolidation of Border Functions

Question: Mr. Secretary, I know you have a great deal of interest in finding a way to consolidate border control functions. I have had the benefit of a GAO report which was completed on this subject based on your request as Finance Committee Chairman. That report suggested that the Administration work with the Congress to formulate a plan for consolidating the border control functions of INS and the Customs Service. GAO ruled out the possibility of moving either agency to either Department.

-- Mr. Secretary, have you seen this GAO report and if so, what do you believe should be done to eliminate some of the duplication of effort, cost and personnel shortages that exist with both Customs and INS?

Answer: Yes, I have seen the GAO report. Indeed, I had requested it while still in the Senate. The Treasury Department fully supports the prospect of resource savings and improved service to the public which would result from a restructuring of the process along the Mexican border. My staff met with top INS managers shortly after the GAO report was issued to discuss a more efficient and effective coordination of border inspection responsibilities. If significant improvements cannot be made by better efforts at coordination than we shall cosider options for restructuring border inspection further.

Customs Inspectors Enforcing Yugoslav Sanctions

Question: Mr Secretary, earlier this year I received a letter from your predecessor advising me of the additional costs being incurred by the U.S. Customs Service for travel and per diem for its inspectors who were assigned to enforce the sanctions against Serbia and Montenegro. Since last fall, I believe Customs has incurred additional costs of $600,000 for 10 inspectors assigned to this duty. On April 30, I received a letter from the Department advising me that the White House had asked Treasury to expand this effort and assign an additional 17 Customs inspectors to the sanctions for a total of 27 inspectors. The letter also states that the additional costs for the next 6 months will total $1.62 million. Mr. Secretary, having been to the former Yugoslavia, I agree with the importance of enforcing the sanctions against the serbs. In addition, I have no problem with Customs inspectors asked to help out this effort.

My problem, however, is that Customs has not been able to meet its own inspection needs here in the U. S. on the southwest border as directed and funded by the Congress. While the Congress funded an additional 300 inspectors for the southwest border in fiscal year 1993, your budget shows that only 100 will be filled due to budgetary restrictions.

-- How does Treasury justify sending 27 Customs inspectors abroad to the former Yugoslav region when it can't meet its own needs here at home?

Answer: Stabilizing the political situation in central Europe is in our national interest. We are hopeful that this can be achieved more by economic and diplomatic pressure and less by direct military action. Earlier this year, the President and the National Security Council decided to increase the number of its Customs officers involved in the Sanctions Assistance Missions. This decision came after it became clear that these sanctions were putting pressure on Serbia and Montenegro to halt the killing in the region. Customs now has some 22 Customs Inspectors and 5 Criminal Investigators in Europe involved in this effort.

The officers we have sent to Europe for this effort were not drawn from the Southwest border.

Question: Why isn't the State Department paying for these costs and what steps have you taken to seek reimbursement from State?

Answer: In this fiscal year, State agreed to fund approximately $4.5 million in technical assistance for Romania, Bulgaria, Macedonia, the Ukraine and Hungary. Additionally, State will fund about $1.4 million in communications costs for the Sanctions Assistance Missions, $250,000 in equipment for the U.S. Customs Sanctions Assistance Missions, and approximately $600,000 in other related costs. Let me reiterate that stability in central Europe is a national interest, not merely a State Department interest. Given that both State and Treasury as members of the National Security Council have international responsibilities, we believe this division of costs to be fair. Obviously, both agencies had to scramble to find funding for this effort, since for obvious reasons, none was budgeted for fiscal year 1993.

Question: What is the total cost being incurred by Customs in fiscal year 1993 as a result of its inspectors and agents participating in the enforcement of these sanctions?

Answer: Treasury agreed, after discussions with the Office of Management and Budget, to fund the travel expenses of the Customs officers involved in this effort. We estimate that cost to be $2,180,000 for this fiscal year.

Question: Who will pay for the $1.62 million in additional costs for the remaining 6 months of this year?

Answer: Of the total cost of $2,180,000 that it will cost to fund the Customs officers involved in the sanctions effort this fiscal year, Treasury has agreed to transfer about $1 million to Customs from other accounts.

Air Drug Interdiction Programs

Question: Do you have any plans to curtail Customs efforts in the air drug interdiction area or do you plan to change this role in any way?

Answer: We have no present plans to curtail our air interdiction program. However, we will follow Administration policy as it develops.

Federal Law Enforcement Training Center

Question: The fiscal year 1994 budget for the Federal Law Enforcement Training Center is, in my view, insufficient to meet the law enforcement training demands throughout the country. In fiscal year 1994, FLETC's proposed budget for the acquisition, construction, and improvements account totals $6,712,000. This amount is $10,589,000 below the fiscal year 1993 enacted level and does not include any new funds for continued implementation of the FLETC Master Plan. I believe it was Treasury's goal to have the Master Plan fully implemented by the year 1995 in order to support the consolidated training concept. Obviously, FLETC will not be able to meet this target date with the current budget request.

Why have no funds been included in the FLETC budget request in FY 1994 for Master Plan construction activities?

Answer: Treasury remains committed to ensuring that FLETC has the facilities necessary to provide high quality training to the law enforcement community. FLETC will have approximately $20 million in committed but unobligated funds for Master Plan construction that will carry over into FY 1994. They are processing the Master Plan projects as fast as possible, but with the long lead times necessary to coordinate designs with the participating agencies, advertise, award and construct multi-million dollar facilities, this is a time consuming process. We will continue to evaluate FLETC's facility needs.

Question: One of the biggest problems we have faced over the years is trying to limit the proliferation of law enforcement training programs which are outside the umbrella of FLETC. DEA, Marshals Service, and even your own Treasury bureaus like ATF and Customs have tried to get authorization to develop their own facilities because FLETC was unable to meet their training facility needs. It seems to me that consolidated training is not only economical, but results in better cooperation in the law enforcement community. But, if the FLETC does not have the facilities to meet these needs, I don't know how we keep other agencies from going out and doing their own thing. Lots of promises keep being made about what will be available at FLETC, but I certainly don't see any commitment to that in the budget requests that we have been getting.

Can you explain how FLETC can meet the demands when the Master Plan is not being fully supported through budget requests?

Answer: I can assure you that the Department of the Treasury fully supports the Master Plan's goal of providing the facilities needed at FLETC to provide quality training to the law enforcement community. Since FY 1989, almost $57 million has been appropriated for Master Plan construction. This funding has been used to construct facilities that have alleviated the major shortfalls at FLETC. The facilities constructed or under construction include a new dormitory, physical training expansion, indoor and outdoor firearms ranges and expansion of the student cafeteria. Funding has also been provided for a number of other projects, including driver training ranges, classroom buildings, shotgun training and a student center. FLETC is in much better shape now to deal with agency demands than ever before. The Master Plan is reviewed

continuously to determine which projects are the most critical, and appropriate budget requests are made.

Question: In fiscal year 1993, Congress provided an increase of $5 million through the Special Forfeiture Fund for construction of additional projects included in the FLETC Master Plan. While it was not stated in the final statement of managers' language, clearly the intent of the additional $5 million was to initiate activities on the construction of a tactical firearms response range. When I asked Director Rinkevich of FLETC why he wasn't spending the money on the tactical range, he said that OMB wouldn't let him spend it for this project because it would establish a commitment to fund the whole project which is about $15 million. In the wake of the Waco incident, it is obvious that we need to provide the men and women in law enforcement the most up-to-date technologies in training. The tactical firearms response range is one of these important technological advances in tactical and firearms training.

Can you please tell me if Treasury intervened at all in the OMB directive to keep the $5 million that Congress funded for the tactical firearms response range from being spent for this project?

Answer: The Senate Report recommended $9 million for the construction work of a dormitory and the architectural and engineering work for the tactical response range. The estimated cost of the dormitory is approximately $7.5 million; therefore, a total of $1.5 million would be available for the tactical response range. However, the Conference Report recommended $5 million for design and construction of training facilities with no specific direction as to which projects should be funded. Since the construction of the dormitory would cost more than the amount appropriated, it could not be built. At the same time, the tactical response range design could be accomplished. Therefore, the FLETC recommended that the $5 million be spent on the architectural design for the tactical response range ($1,566,000), construction of two previously design funded projects (shotgun training area and warehouse expansion, $450,000 and $2,430,000, respectively) and the design of two new projects (practical exercise facility and firearms multi-purpose building, $290,000 and $264,000, respectively). The Department and ONDCP approved this plan under the previous Administration. OMB approved all projects except for the tactical response range. This Administration has not yet had an opportunity to review the tactical response range though I anticipate covering it during formulation of the President's 1995 Budget.

Customs Inspectors Overtime Reform

Question: Mr. Secretary, I'd like to bring to your attention a serious concern I have over a provision in the Administration's budget proposal. The proposal recommends reforming the Custom Inspectors overtime system, which I have addressed with the introduction of legislation in the past 2 sessions, and using the $18 million in savings from that reform toward the federal deficit.

Last year the Ways and Means Committee worked extremely hard to develop a compromise on this issue. The Committee recognized that the system

needed to be reformed, but that the hard working inspectors should not be penalized in the process. The compromise was attached to the omnibus tax bill which was vetoed. I had concerns about the compromise because it had no law enforcement provisions and therefore introduced my own bill. I have again introduced the bill this session.

The proposal recommended by the Administration would be devastating to the Customs Service. The employees who protect our borders would lose, on average $250 per month, some employees would lose up to $400 per month. The Customs Service would lose its ability to recruit and retain qualified employees to protect our borders as well as fighting the war on drugs.

-- Mr. Secretary are you aware that the Administration is proposing to take the $18 million from overtime reform and put it towards deficit reduction and if so, are you doing anything to have this removed from the proposal?

Answer: As you know, a GAO report published in June 1991 criticized the 1911 law which contains provisions affecting Customs inspector overtime as being outdated and in need of reform. In the past, provisions of this act allowed abuse of the overtime system. The savings will be accomplished by reforming the antiquated and abused provisions. I understand that Congress will address this issue during the budget reconciliation process.

Financial Institution Fraud

Question: Mr. Secretary, in the area of financial institution fraud, the Secret Service has shown great success in the 2 1/2 years they have had concurrent jurisdiction to investigate these crimes. The authority for the Secret Service to investigate these type crimes expires with that of the RTC, or its successor.

-- The question I have is this. Shouldn't this investigative authority be made permanent, given that many of these financial institution fraud cases originate within Treasury regulated agencies such as Office of the Comptroller of the Currency and Office of Thrift Supervision and based on the information I have from the Secret Service, these cases are not going away?

Answer: The U.S. Secret Service, a law enforcement bureau within the Department of the Treasury, was created in a time of national crisis. The crisis was not the assassination of a President, but a crisis within our nation's monetary system; 33% of the currency in circulation in the United States in 1865 was counterfeit at that time.

The Secret Service has been responsible for maintaining the integrity of the nation's monetary supply for over 125 years, and has protected the internal assets of the Federal Deposit Insurance Corporation (FDIC) since 1933. The Service is also the guardian of Treasury's Electronic Funds Transfer (EFT) system, which transfers billions of dollars on a daily basis.

As a result of problems within thrift institutions, in the 1980s the Secret Service received temporary concurrent jurisdiction to work financial institution fraud investigations. The Secret Service has requested that this jurisdiction be made permanent. The Department is currently reviewing this request.

Office of Foreign Assets Control

Question: In the past, the subcommittee has given strong support to the expansion of the Office of Foreign Assets Control (OFAC) which enforces economic embargoes and the Trading with the Enemies Act. Because the office was not being properly staffed or funded to investigate violations and take enforcement actions, this subcommittee started providing earmarks of funding and staffing levels for OFAC about 4 years ago. In addition, in fiscal year 1993, we included a general provision which raised civil penalties for violations to the Trading with the Enemies Act to $100,000. I see for fiscal year 1994, that you have proposed the elimination of the earmark for OFAC.

Can you tell us why this earmark is being eliminated?

Answer: Departmental Offices is making every effort to comply with the Administration's Executive Orders to reduce administrative costs (E.O. 12837) and personnel (E.O. 12839). The earmarking of funds for any office reduces Departmental Offices' flexibility in carrying out the reductions required by Executive Orders 12837 and 12839. Because these reductions must be made on a Department-wide basis, the earmark places a greater burden on the other critical Treasury programs within DO.

Question: How much is budgeted for OFAC, both in funding and staffing in fiscal year 1994? ($3.064 million and 48 FTE were funded in FY 93)?

Answer: As you know, Mr. Chairman, the President's Executive Order required a personnel reduction of two-and-one-half percent by the end of fiscal year 1994. OFAC's share of this reduction equates to two full-time equivalent (FTE) positions. The fiscal year 1994 President's budget includes this reduction and provides a total of 46 FTE and $2.971 million for OFAC.

Question: Can you tell us if you plan to meet the $3.064 million and 48 FTE earmarks for OFAC in fiscal year 1993.

Answer: OFAC is making every effort to achieve the $3.064 million earmarked for FY 1993. However, as of March 1993, OFAC had 43 on-board. OFAC will be unable to meet the 48 FTE earmark. OFAC is planning to recruit 3 additional personnel in fiscal year 1993 for a target of 46. With this plan OFAC will avoid having to reduce personnel in fiscal year 1994 to comply with Executive Order 12839 which reduces them by 2 FTE.

Question: Some have argued that the Department should not have agents and other investigators at the level of the Departmental Offices and that the

activities of this office could be best served through a separate bureau or through consolidation into one of the existing Treasury enforcement bureaus.

Have you had a chance to review this issue and if so, what are your thoughts on the organization and the functions of this office.

Answer: In the recent past, at the direction of the Senate Appropriations Subcommittee on Treasury, Postal Service, and General Government, the Office of Foreign Assets Control increased the number of enforcement agents to six FTEs. That increase in enforcement resources has greatly improved efficiency of OFAC operations and markedly benefitted sanctions enforcement as the need to use agents from other agencies has been curtailed.

Law Enforcement Budget Increases and Staffing Reductions

Question: Mr. Secretary, I would like to raise some concerns I have about Treasury law enforcement bureaus not receiving support during the budget formulation process with OMB. In previous Administrations it seems they were not put in a very good position in the President's Budget. You and I both know, you have some of the best law enforcement agents around. They are really some dedicated professional people. What has puzzled me through the years is how the Justice bureaus do so much better when their budget goes to OMB. I would like to hear your thoughts on this issue and whether you think Treasury needs to set its objectives higher when formulating these bureau's budgets with OMB?

Answer: Mr. Chairman, you are absolutely right. The Treasury Department has some of the finest men and women in law enforcement. This tradition dates back to the early days of this great Nation, and I want to assure you that I am fully committed to supporting the law enforcement functions of this Department. I would suspect that over the years Treasury has scrutinized its budget requests very carefully. Treasury must set the example for fiscal responsibility within the Federal government.

SES Positions for Treasury Special Agents in Charge

Question: Mr. Secretary, I would like to bring to your attention another issue that has been of real concern in your law enforcement bureaus and that is the fact that all FBI and DEA special agents in charge (SACs) are Senior Executive Service positions. It is my understanding that in the Treasury bureaus, Customs has only 8 SES positions out of 30 SAC positions, ATF has 5 of 22 positions, and the Secret Service has 14 out of 75 SAC positions.

Part of the reason for this difference may be the fact that FBI and the DEA are exempt from OPM's SES allocation and control and Treasury is not. I am raising this issue, Mr. Secretary, because I believe that in order to get and maintain the best law enforcement agents in Treasury, they must be given the status and the pay they deserve. In my judgment, they don't and I think Treasury needs to do something about that.

Mr. Secretary, does Treasury currently have any plans to address this issue?

During last year's hearings, Treasury stated they had requested from OPM additional SES positions. Can you give us a status report on that request?

If OPM did allocate additional SES positions for Treasury, how many have gone to your law enforcement bureaus to upgrade the SAC offices to SES?

Answer: In view of the President's current directive to reduce Federal employment and positions at grade 14 and above, it is apparent that a major increase in the Treasury SES allocation is currently not feasible. However, to carry out Treasury's mission effectively, it is critical that we maintain our current allocation. We anticipate that as SES employees retire, we will have to shift resources just to keep up with existing program demands, such as law enforcement and Tax Systems Modernization. However, a priority will be to upgrade Treasury's law enforcement positions.

High Intensity Drug Trafficking Area (HIDTA)

Question: As you know, the Treasury Department currently has jurisdiction over the Southwest Border High Intensity Drug Trafficking Area. Under the Bush Administration, Warren Reese was appointed to oversee the HIDTA and Operation Alliance carried out the day to day activities.

Does Treasury intend to continue its current role in the Southwest Border HIDTA, and if so, can you give us any idea of who will be put in charge of that HIDTA?

Can you tell us if you had a chance to review the strategy for the Southwest Border High Intensity Drug Trafficking Area and if so, whether or not you plan to make significant changes from the strategies formulated by the previous Administration?

Answer: The HIDTA concept is under the direction of the Office of National Drug Control Policy (ONDCP). I expect that the Treasury Department will be working closely with the new Director of ONDCP in a re-evaluation of the entire drug strategy. As part of that review, the HIDTAs will certainly be analyzed to see if any changes are needed.

Treasury Criminal Referrals

Question: Mr. Secretary, last year's Senate report directed the Secretary of the Treasury to coordinate, through the Office of the Assistant Secretary for Enforcement, the collection and dissemination of criminal referrals between Treasury regulatory agencies and criminal investigative agencies of the Treasury Department. Treasury was also to provide a written report to this committee outlining the implementation of this requirement.

-- Is the coordination of these criminal referrals currently in place and if so, how many referrals have been forwarded for criminal investigation?

-- Which Treasury agencies are currently investigating those referrals?

-- Do you know when Treasury will provide the written report to this committee?

Answer: To facilitate the collection and coordination of criminal violations committed against programs under the regulatory oversight of the Department of Treasury, the Secretary of the Treasury directed that copies of all criminal referrals generated by Department of the Treasury regulators and the institutions they regulate, be forwarded to the U.S. Secret Service. To date approximately 3000 criminal referrals have been processed and forwarded to Secret Service field offices for investigation.

We are pleased to report that with the change in policy regarding referrals that went to the heads of OCC and OTS, all of the Department of the Treasury Bureaus which have jurisdictional interest in the criminal referrals are receiving them.

Protection of Former Presidents

Question: Mr. Secretary, as you know, every year the Secret Service spends somewhere in the range of $12 to $15 million for the protection of former Presidents and their spouses. With President Bush joining the former President rolls this cost will most likely increase to somewhere in the range of $18 to $20 million. Former President Nixon currently has his own contract security that he pays for himself and it appears to be working very well for him.

I would like to get your thoughts about a plan to provide protection to former Presidents for a set time period, like for a period of 5 or 10 years and then either stop the protection all together or give them some sort of grant to contract for protection if they feel it is necessary. I am not interested in jeopardizing anyone's life or not leaving them with some security if they warrant it, but it troubles me that we don't find a compromise on this issue and bring an end to providing protection to former Presidents. Have you given any thought to this?

Answer: Public Law 89-186, the Former President and Families Protection Act, and Public Law 90-608, the Supplemental Appropriation Act of 1969 mandate that the Secret Service provide protection to former presidents and their spouses during the president's lifetime. There is no doubt that the lifestyle of an individual who becomes President of the United States is irreversibly changed. One aspect of that change is that the anger of some individuals or groups may be directed at a Former President for real or imagined grievances long after the individual leaves the Office of the President. Secret Service records can demonstrate trends regarding known threat activity directed toward each of the Former Presidents. What cannot be captured, however, is the potential threat from a mentally unstable individual who reacts with violence towards a Former

President without logical provocation, or the potential act of retribution occurring may years removed from an action ordered by a Former President while acting in an official capacity as leader of this nation. If protection was removed after a designated number of years, and nothing occurred, it would be hailed as an appropriate cost cutting measure. If however, a Former President was killed or injured in the absence of authorized protection, there would be a public outcry. The question then becomes, "what is the level of responsibility and risk acceptable to the American people?" This is a question appropriately answered by the Congress of the United States.

A related, but separate issue is whether such protection, if authorized, should be provided by the Secret Service. In conjunction with the mandate given to the Director of the Secret Service by PL 102-393, enacted October 6, 1992, the Secret Service identified issues associated with alternative security approaches and made those findings available to the House Appropriations Committee on April 28, 1993, and the Senate Appropriations Committee on May 19, 1993. The results of discussions with the Former Presidents and Mrs. Johnson, and their comments, were provided at those times also. The Department will continue to work with the Congress on this issue, but feels that currently the appropriate role for the Department and for the Secret Service is to continue to execute the laws of the Congress as set forth by Public Laws 89-186 and 90-608.

FinCEN -- Information Sharing

Question: It is my understanding that the success of FinCEN is somewhat dependent on being able to access other agency databases. During this year's hearings, the Director of the Financial Crimes Enforcement Network was asked to give this committee a status report on agency agreements for sharing databases. The Director of FinCEN stated that he still did not have memorandum's of understanding (MOU's) with not only the FBI but also with the Secret Service and IRS.

I can understand the difficulty with obtaining an MOU with the FBI since it is in a different Department but can you explain to this committee why bureaus of the Treasury Department would not participate in this data base sharing?

Answer: The director of FinCEN has relatd to me the following details as they relate to MOUs. FinCEN has had problems in concluding information sharing agreements with the Secret Service and the Internal Revenue Service. The Secret Service had never before shared information systematically and was concerned about protective information. IRS is concerned about the effect of information sharing for non-tax cases involving money laundering due to the fact that some of these cases overlap with its administration of the tax laws. This overlap would then cause these cases to be subject to the comprehensive disclosure limitations of section 6103 of the Internal Revenue Code.

Other Treasury Bureaus that have not concluded MOUs are the Bureau of Public Debt, Office of Controller of the Currency (OCC) and Office of Thrift Supervision (OTS). The wording of the Bureau of Public Debt MOU is still being

worked on although FinCEN is already accessing the information in the manner agreed to sometime ago. The discussions with OCC and OTS need to be renewed. At this time, neither of these organizations have been presented with a draft MOU, but discussions will begin in the near future.

Question: Can you tell me what steps you are taking to ensure full sharing of information databases in Treasury with FinCEN?

Answer: I am going to ask the Assistant Secretary (Enforcement) to work with the Director of FinCEN to insure that all necessary MOUs with Treasury Bureaus are concluded by the end of the calendar year. I will monitor this situation by asking for a periodic status report on the negotiations.

Question: Is there anything you could do to assist FinCEN in reaching an MOU with the FBI that would allow access to its databases?

Answer: FinCEN has attempted for three years to make arrangements with the FBI, similar to those it has with 10 other Treasury and Justice enforcement agencies, for formal information sharing. FinCEN believed that FBI Headquarters would welcome its efforts at cooperation, because in the field FinCEN receives high praise from Bureau agents for its work and the FBI is one of FinCEN's four largest customers.

While the Bureau is willing to take information, it is apparently less willing to give information to others. FinCEN's Director recently received a letter from the Assistant Director of the FBI for Criminal Investigation rejecting its efforts at information sharing, despite the fact that FinCEN's request was for only limited information and was designed to assist it in working with other agencies. Although the letter contained an obligatory reference to resource constraints, it said that the Bureau would share information with FinCEN through the NDIC (National Drug Intelligence Center). This letter caught FinCEN by surprise since the placement of an FBI terminal at FinCEN had been orally agreed to last September. In addition, the FBI assigned additional personnel to FinCEN to operate the terminal shortly after the agreement was reached. Access through NDIC was never discussed with the FBI and this type of access seems somewhat unique in that FinCEN has a broader mission beyond narcotics' intelligence.

I plan on asking the Assistant Secretary (Enforcement) and the Director of FinCEN for a personal briefing on this matter to determine if I should meet with the Attorney General in an attempt to resolve this impasse.

Departmental Offices Budget

Question: For fiscal year 1994 you are proposing to combine the 2 separate accounts of Departmental Offices and International Affairs into one. Your budget request for fiscal year 1994 for the consolidated account is $104.597 million and 1,087 full-time equivalent positions. This amount reflects a reduction of $13,000 and 24 FTE from the fiscal year 1993 enacted level. Included in your budget request are 2 program enhancements totalling $694,000 and 4 FTE. Of

this amount, $194,000 and 4 FTE are being requested for improving the Department's financial management systems; and $500,000 for the Office of the Assistant Secretary for International Affairs (OASIA) for information data base costs, certain international economic studies, and reimbursements to the State Department for certain support services. These increases are offset by nonrecurring costs and associated with systems modernization activities in fiscal year 1993.

Mr. Secretary, can you please provide a detailed breakout of the costs associated with the OASIA enhancements by activity?

What would be the impact if these funds were not provided for this initiative?

Answer: The $500,000 initiative is broken down as follows:

$300,000 pertains to acquisition and processing of both classified and unclassified economic information. Treasury currently must rely heavily on economic and analytical information provided by G-7 countries or international organizations. Treasury has not had the resources to develop its own comprehensive computerized information databases.

Although classified economic information originates with U.S. Government sources overseas, the staff currently has no means to transmit, store and manipulate the data in an automated form with the requisite computerized analytical tools. Acquisition of additional unclassified economic data is urgently needed to support the analytical requirements of international economic policy. Historical and current time series data for major foreign countries is needed covering (1) components of output and income; (2) monetary aggregates (3) general government and central government fiscal performance; and (4) key elements of trade and international transactions. Additional equipment is needed to store and provide electronic access to the data.

Loss of funding will inhibit OASIA's ability to support policy initiatives intended to promote world growth and see that the U.S. receives it's share of the benefits. These basic materials would be used for analysis, negotiations and agreements which will assist the Administration in it's objectives.

$100,000 will provide for one-time basis consultants who will work on special international and macroeconomic issues such as the economic and environmental impact of multilateral development loans on selected foreign countries.

Loss of funds will severely hinder OASIA's capability to satisfy the demand for this type of analysis in support of important policy decisions.

$100,000 is needed to reimburse the Department of State for administrative and secretarial support of financial and macroeconomic activities at overseas locations. This will provide for the hiring of needed part-time secretarial help and additional telecommunications access for data transmission to Washington D.C.

Loss of these funds will result in less than adequate administrative and secretarial support coverage and impede necessary day-to-day communications between OASIA's overseas representatives and their headquarters colleagues.

Question: How much money and FTE are budgeted in your Departmental Offices account for the Office of Enforcement activities in fiscal years 1993 and 1994.

Answer: In the fiscal year 1994 President's Budget, the FY 1993 column includes $2.799 million and 32 FTE for the Office of Enforcement; for fiscal year 1994, a request for $2.831 million and 32 FTE is being made for the Office of Enforcement.

Question: Can you identify where the 24 FTE reductions will be taken by activity in fiscal year 1994? What will be the impact, if any.

Answer: The net reduction of 24 FTE in FY 1994 will be taken from activities as follows:

Policy and Program Development	13
International Affairs	5
Departmental Management and Administration	5
Buildings Maintenance and Operations	1
TOTAL	24

Several offices within Policy and Program Development activity will be forced to operate at reduced service levels. The offices will experience short-run negative impacts in regulatory, budgetary and legislative programs and some delays in achieving long-range goals. Furthermore, Treasury is currently experiencing an increased workload in support of the newly created National Economic Council and Health Care Task Force which impact this activity. The existing staff will be required to assume additional responsibilities.

Reductions within the International Affairs activity can be made with minimal impact through managed attrition.

FTE reductions within the Departmental Management and Administration activity will primarily effect our systems modernization program. Examples include the Risk Management Program and the second phase of the Inventory, Tracking and Control (ITC) Project, both of which are needed for compliance with federal risk management and internal controls requirements. Reductions to the Risk Management Program will mean fewer user services and shifting responsibility for compliance with federal risk management requirements to Departmental Offices users. Phase II of the Inventory, Tracking and Control Project will be delayed.

Reductions within the Buildings Maintenance and Operations activity can be made with minimal impact through managed attrition.

Electric Power Cooperatives

Question: Mr. Secretary, it is my understanding that foreign governments may prepay or refinance loans issued by the Federal Financing Bank without penalty while domestic borrowers, specifically electric power cooperatives, have significant penalties attached to such transactions.

In my home State of Arizona, the Arizona Electric Power Cooperative, Inc., the sole power producing cooperative, is seeking to refinance approximately $146 million in outstanding loans carrying interest rates from 7.446 percent to 8.229 percent per annum. Under current administrative regulations, Arizona Electric Power would have to pay about $9 million in penalties in order to refinance at current lending rates. Arizona Electric Power's refinancing program would save approximately $1.6 million per year in interest costs and over $16.5 million over the life of these loans, but it may not be able to refinance if the prepayment penalty is applied. Arizona Electric Power has already paid over $7 million this year in prepayment costs on loans carrying much higher interest rates.

Mr. Secretary, it seems to me that this disparity just isn't fair and doesn't make any sense given the Government would face a lower risk of loan failure if refinancing were encouraged. I was told that the Treasury is considering elimination of the disparity in treatment between these domestic borrowers and foreign borrowers.

Are you familiar with this issue and what steps if any, are being taken to eliminate this disparity?

Answer: The recently enacted Budget Reconciliation Act of 1993 contains specific provisions which provide rural electric cooperatives with relief from the prepayment premiums applicable to many REA loans from the Federal Financing Bank. These provisions go a long way toward addressing some of the competitive concerns you have raised, and will assist rural electric cooperatives in providing competitive cost-effective electrical service.

BTU Tax and Airlines

Question: · Mr. Secretary, as you well know, the airline industry has struggled enormously over the past several years. The industry has never earned more than $1.7 billion. Even during the so-called economic boom of the 1980's (1983-1989), the airline industry's net profit margin was 1%. The industry's high water mark was 1988 when the net profit margin was 2.8%. In the last three years, the airline industry has lost $10 billion. Last year, it lost $4.7 million. These losses translate into thousands of lost jobs in the aerospace industry. While losses have increased, Federal and local taxes on the industry have increased.

Estimates place the cost to the airlines industry of the proposed BTU tax at $1 billion a year.

What evidence do you have that suggests the airlines will be able to pass this tax along and that it will not have to be absorbed by this already weakened industry?

Answer: The energy tax, as proposed by the administration and as reported out by the Ways and Means Committee, includes an exemption for jet fuel used in international transportation. This exemption was added to insure that the domestic airline industry would not be put at a competitive disadvantage relative to foreign airlines.

The energy tax will apply to all modes of transportation fuels used in domestic travel, including gasoline used in automobiles and diesel fuel used in buses and trains, as well as to jet and other aviation fuels. The airline industry should therefore remain competitive with other modes of transportation.

QUESTIONS SUBMITTED BY SENATOR KERREY

Question: Senator Daschle has sponsored legislation in the Senate called the Renewable Fuels Incentives Act of 1993. I am a cosponsor of this bill and I believe that its passage is critical to economic growth, job creation and the quality of our environment. The bill amends the Internal Revenue Code to encourage the production of biodiesel and certain ethanol fuels. Specifically, it does three things:

1) it broadens the existing tax credit for ethanol making it equally creditable against the alternative minimum tax (costs $11 million/5 years);

2) adds biodiesel to the fuels that are eligible for the blender credit;

3) makes the alcohol blender credit nontaxable for blenders of ETBE. ETBE is made with domestic ether capacity and would draw on mostly domestic non-petroleum energy sources for raw materials. By creating new market opportunities for domestically-produced ethanol derived ethers, economic growth and investment opportunities can be developed across the country. Are you familiar with this legislation?

In your opening statement you spoke of Treasury having the lead role in maintaining economic security. This legislation would reduce our dependence on foreign oil, thus facilitating your role in our country's security. Is this something that you would support?

Answer: The Administration shares your view that an increase in energy security would contribute to the maintenance of our country's economic security. In fact, one of the main objectives of the Administration's proposed Btu energy tax is to increase energy security. We demonstrated our support of this principle by exempting renewable fuels, including biodiesel and ethanol, from the Btu energy tax. We believe that such an exemption is a meaningful avenue to promote the use of renewable fuels. The Senate is in the process of considering changes to the Btu tax. We will assess the Renewable Fuels Incentives Act of 1993 in conjunction with Congress' further actions.

Question: I understand the need for deficit reduction and since coming to the Senate, I have often spoke of the need for tax increases and spending reductions to gain control of the deficit. I commend President Clinton on his

honesty to the American people regarding our country's economic situation and his will to do something about it. However, I have concerns with some of his tax proposals and their affect on rural America.

a) The Btu tax --

The Food and Agricultural Policy Research Institute (FAPRI) has estimated that farmers can expect an 8% increase in fuel and energy prices from the President's Btu tax. The Btu will also result in an increase in energy related categories of production expenses of $690 million in 1998. And, by 1998 when the tax is fully implemented, corn producing farmers will face a cost increase of $3.58 per acre as a result of the Btu tax.

b) The inland Waterways User Fee Increase (barge tax) --

The FAPRI study also included the implications of the barge tax on agriculture. A differential between inland farm prices and gulf export prices is expected to increase by 6.5 cents a bushel for corn and with the $1 increase in the user fee. This impact will be greatest on grain shipped to the gulf, but average prices inland are also likely to fall for all crops -- about 3 cents per bushel for corn. The Administration's program is designed to generate $820 million in additional revenue over 1994-97 from waterway fees; however, since crop prices are expected to decline, the government will spend an additional $600-$650 million in deficiency payments over fiscal year 1994 through fiscal year 1998.

1) As the FAPRI study indicates, because of the effect that the inland waterway user fee will have on farmers, it may just force the government to "transfer" the revenues from the fee increase back to deficiency payments. What does this do for deficit reduction? What guarantees do we have that the Btu tax won't cause the same dilemma -- it is a new tax and the possible effects it may have on various industries and our economy are virtually unknown.

Answer: The Btu energy tax will increase farm production costs, but by much less than suggested by the FAPRI study you noted. FAPRI has since revised its earlier study, in part to reflect changes in the energy tax made by the House Ways and Means Committee. In particular, diesel fuel and gasoline used on the farm has been exempted from the oil supplement tax rate. For corn, the revised FAPRI study predicts a $2.15 per acre increase in variable production costs (a 1 percent increase). However, the revised report notes that this increase is offset by a $0.50 savings on short term interest costs due to the expected decline in interest rates attributable to the Administration's deficit reduction program. Overall, the decline in short term interest expense is projected to result in a net $700 million decline (not increase) in farm production costs in 1998.

The revised FAPRI study shows an overall decline in net farm income of 2.4 percent in 1998 due to the proposed farm program cutbacks and lower prices received for the commodities produced. However, this analysis excludes the benefits of the proposed increase in the amount of investment allowed to

be expensed, the benefits of the proposed extension of the allowed deduction of 25 percent of the health insurance payments of the self-employed, the proposed increase in earned income tax credits (EITC), and other favorable elements of the Administration's economic program. Moreover, it also excludes the benefits of the decline in interest rates on intermediate or long-term debt. While it may take longer for such debt to be rolled over than for short-term debt, ultimately all debt will benefit from lower interest rates. Our studies indicate that, when these factors are considered, most farmers will benefit from the Administration's program.

The revised FAPRI study suggests an average decline in the price of corn of about one cent per bushel due to the proposed increase in the inland waterways fuel tax. This lower estimate reflects the House Ways and Means Committee reduction of the proposed $1.00 per gallon increase to $0.50 per gallon. However, even this lower estimate assumes increased rail freight costs in response to the increased barge tax. While such increase in rail freight rates may be expected where barge transportation competes directly with rail, it is less clear that rail rates would increase more generally, as has been assumed in the FAPRI study.

The proposed increase in the waterways fuel tax was not motivated exclusively by revenue considerations; it was also designed so that the users of the inland waterways would pay a portion of the operating costs of the system more commensurate with the share of the costs paid by users of other government supported infrastructure.

Question: Small businesses have been the impetus and the driver of our current economy and movement away from a recessionary economy. I have heard from many small business owners in my state who are very concerned with the increase in the corporate tax rates. As you know, many small businesses are corporations taxed under Subchapter S of the Internal Revenue Code, which means that the corporation's income is taxed at the shareholder level. It is my constituents' fear the President's tax proposals and discussions taking place in Congress will result in a maximum rate of 39.6% on small business, versus 34% on income up to $10 million for regular corporations. $10 million is significantly more than small business corporations will earn as taxable income. However, many small businesses will earn more than $250,000, the level at which the 39.6% tax rate becomes effective. Is this your understanding of the President's proposal? What can be done to prevent this unfair tax on small business?

Answer: I do not believe the President's proposals are unfair to small business for several reasons.

First, the President shares your concern with the important role that small business plays in our economy. The special capital gains provision for investments in small business and the increased expensing deduction under section 179 (which replaced our original proposal for a small business investment tax credit) are both aimed directly at helping small business. Because of our concern for small business, the proposed rate increase on C

corporations only applies to businesses that, as you note, could not be considered "small."

Second, the comparison you cite between the 34 percent rate on corporations with income up to $10 million and the 39.6% maximum rate after the proposed surtax for individuals is incomplete. The 34 percent tax rate is just the first step in the taxation of corporate income. When the shareholder receives the corporate income, the income is subject to a second level of tax at the investor's marginal rate. A dollar of corporate income that is distributed to individuals is also subject to tax at the individual's rate, including the 39.6 percent surtax, if the investor is subject to the surtax. In such situations, the tax rate on income earned an S corporation is much lower than that on income earned by a C corporation.

Third, the proposed increase in individual rates will have a much smaller effect on owners of small businesses, including most S corporations, than many people fear.

- Only 4 percent of the 21 million taxpayers with income from small business would face either the 36 or 39.6 percent rates.

- S corporations themselves seldom earn enough income to subject their owners to the surtax. Only 3 percent (fewer than 50,000) of the 1.6 million S corporations in 1990 had net income of $250,000 or more. Only a few thousand S corporations -- 0.2 percent of the total -- generated income per shareholder of $250,000 or more.

Question: Although the outlook for the President's investment tax credit proposal is not promising in the House of Representatives, it will most likely be debated. One central criticism of the investment tax credit, at least the pre-1986 credit, was that the ability of taxpayers to benefit from the credit depended on them having taxable income. I suggest that excess credit of the revived ITC be applied to social security tax liability for the self-employed in addition to income tax liability. This broader credit will be attractive to more taxpayers, thus maximizing the ultimate goal of an ITC -- to spur economic growth. What is your assessment of this proposal?

Answer: The House Ways and Means Committee dropped the Administration's proposed investment tax credit (ITC) in favor of an increase from $10,000 to $25,000 in the limit on the amount of investment that may be expensed. But even if an ITC were to be enacted, it would generally not be desirable to allow it to be used against SECA taxes. To do so would create a distinction between those who work as employees for others and those who work for themselves. While the ITC could also be allowed against the employee/employer payroll (FICA) tax, so as not to distinguish between employees and the self-employed, allowing the ITC against either the SECA or FICA tax would reduce the revenues going into the social security trust fund. This would ultimately limit the social security benefits available to the retired and disabled.

Question: Secretary Bentsen you have been a long-time advocate of the need to increase savings in our country with such proposals as the Super IRA. Other than the long-term goal of deficit reduction, are there specific provisions in the President's proposals that address the need to increase savings? Do you believe that savings incentives can be offered now, or should all of our attention be focused on deficit reduction?

The interest in tax reform is on the rise since the Strengthening of America Commission, chaired by Senators Pete Domenici and Sam Nunn released their ideas on a progressive consumption tax. I think there is a critical need to increase savings among Americans and our current tax code provides no real savings incentives. It actually discourages savings. I believe that a steeply progressive consumption tax such as that proposed by the Commission could significantly increase savings among Americans and simplify the tax code. What is your opinion of a steeply progressive consumption tax? If tax reform should become an issue during the 103rd Congress, what reforms should be taken for the best interest of the economy?

Answer: The Administration's proposal to provide a limited capital gains exclusion for certain small business stock should encourage investment in small corporations. Although in principle a consumption tax should encourage more savings than an income tax generating the same revenues, consumption taxes are not by nature progressive. If a consumption tax is to become sharply progressive, both the consumption tax and the income tax must be significantly modified. I believe that the Administration's economic plan offers the nation the soundest program for growth and job creation.

Question: It is my understanding that a national reorganization initiative is currently underway in the Internal Revenue Service. The Internal Revenue Service operates a toll-free office in the Omaha District with 160 employees that service taxpayer questions from Nebraska, Montana, North Dakota and South Dakota. As a result of the reorganization efforts, the toll-free office in the Omaha District may be relocated or one mega call site for all taxpayer services may be created. What is the status of the reorganization effort? Has a decision been made regarding the location of the toll free sites or the creation of one mega call site for the Internal Revenue Service?

Answer: For the past several months, The Internal Revenue Service has been engaged in a major study of the current Internal Revenue Service structure and business methods with an eye toward identifying the functional limitations of today's organization and defining a better way of delivering service, shoring up compliance, and administering the tax system.

Internal Revenue Service efforts to define its future business vision resulted in three separate study groups: the Service Center Organizational Study, the District Organizational Study, and the National Office/Regional Organization Study.

The Internal Revenue Service has known for some time that it does not make good business sense to simply automate existing systems. Technology

provides an excellent opportunity to better serve the taxpaying public, but unless the Internal Revenue Service organizational structure complements the technology, much of the benefit will be lost.

The Internal Revenue Service believes technology will provide greatly improved service at lower costs. The first part of the analysis by the three study groups has been completed. The Internal Revenue Service believes it now knows how it can do its work differently. They are now in the process of making the difficult choices about where the different parts of the organization will physically conduct business in the future. These decisions will play out during the balance of this decade. Clearly, due to technology, the Internal Revenue Service can deliver better, more integrated assistance with fewer physical sites.

In answer to your specific question about the Omaha District, the Internal Revenue Service is analyzing all aspects of its current telephone operations in 44 geographical locations. Omaha is one of these sites. While no firm decision has been made at this time with regard to sites, the Internal Revenue Service will be making these decisions during the next several months. The subcommittee will be kept informed of these decisions prior to public announcement.

In the event that you and/or your staff would be interested in a briefing on the current status of the overall plan to "reinvent" the Internal Revenue Service, officials of the Service would be happy to make themselves available.

QUESTIONS SUBMITTED BY SENATOR BOND

Departmental Offices

Question: The Department proposes to combine the Office of the Secretary and International Affairs accounts in fiscal year 1994. Your budget submission indicates this action will create savings. Could you indicate what the savings will be?

Answer: Combining the Salaries and Expenses and International Affairs appropriations into a single funding source will increase efficiency in financial management by streamlining accounting and budget operations. A single funding request will reduce personnel and administrative costs, opportunity for error, computer time, and storage costs.

A single funding source will also more accurately reflect the way that the bureau is managed -- as a single operation in support of the Secretary of the Treasury.

Question: Will this savings be nonrecurring or obligated elsewhere?

Answer: More efficient management of the Department's funds through a single appropriation will allow a FTE reduction, scheduled for FY 1995, and lower administrative costs in accordance with Executive Orders 12837 and 12839.

Question: The Budget Statement indicates that 4 new FTE will be needed to review 104 financial reports required by the Department. I note that this number was reached following a review of reporting requirements. Did this review delete any reports?

Answer: The review was for the primary purpose of identifying reports that require the attention of the Departmental/agency Chief Financial Officer (CFO) under the CFO Act of 1990, which did not result in the identification of any reports to be deleted. It was apparent that none of the reports are exact duplicates of each other, but certain reports contain some of the same types of information. We are beginning a more detailed data analysis of the reports. It is anticipated that we will be able to consolidate or eliminate some reporting requirements as we complete this analysis.

Question: Are all of the 104 necessary reports?

Answer: The study proceeded to identify only reports that are required by statute or regulations implementing statutes. Accordingly, all of the reports exist to comply with a statutory requirement or regulatory reporting requirement imposed by some federal agency, such as the Office of Management and Budget or the Financial Management Service, to comply with some statutory responsibility. Of the 104 reports, 43 were identified as significant for Departmental CFO review. Of these 43, 22 were ranked as high priority for Departmental Review, with the remainder being ranked medium or low high priority. Each of Treasury's thirteen bureaus produce all of these reports. It is anticipated that we will be able to work with various organizations, including the Congress, to consolidate or eliminate many of these reports not identified as top priority. The staffing request is associated only with these reports. The inventory of financial reports, priorities, and final study team report were completed with presentation of all of the bureaus in Treasury as well as the Office of the Inspector General. A copy of the report is being provided to the Subcommittee for reference purposes.

Question: Negotiations continue with regard to NAFTA and GATT. As you note in your statement, the Department plays a substantial role in this area. Press reports have been less than optimistic. Could you please give the Subcommittee your assessment of the current situation with regard to these agreements?

Answer: The President has said that he wants a North American Free Trade Agreement (NAFTA) in place by January 1, 1994, and he wants to conclude the Uruguay Round General Agreement on Tariffs and Trade (GATT) negotiations by December 15, 1993. These deadlines are achievable.

The negotiations for the needed supplemental agreements on the environment and labor are well underway. We will send the NAFTA with the supplemental agreements to Congress for its consideration and approval in time for implementation on January first.

The President has established an intensive work program on the Uruguay Round using bilateral and quadrilateral negotiations as well as the Organization for Economic Cooperation Development (OECD) and G-7 processes. Our first order of business is to conclude an agreement among key countries (including the European Community, Japan, and Canada) on a market access package covering goods and services. An agreement would provide the foundation for concluding the Round by the December deadline.

Departmental Offices -- Community Development Banks

Question: The investment part of the budget proposes $60 million for community development banks. This program will not be funded by this subcommittee, but by HUD/VA, but we do have an interest. Could you give us a description of what these banks will be doing and how they will operate?

Answer: There is ample evidence that economic progress has bypassed an unacceptably large number of individuals, small businesses, farms, and local communities in both rural and urban America.

While the specifics have not been worked out, the President's community development bank (CDB) proposal will be focussed on providing much needed financial services, equity and credit to underserved areas, including both urban and rural communities, in a way that will lead to community based economic revitalization.

Efforts will be made to accomplish these goals by buttressing the knowledge, experience, and success of existing community development financial institutions, as well as by establishing new institutions where communities are currently unserved or undeserved.

The CDB proposal is being developed by an interagency task force consisting of Treasury, Agriculture, HUD, Commerce, the NEC, and the DPC. The appropriation in the budget for CDBs is $382M over four years. Ideas for increasing private sector contributions in the area of community development are being explored. These include providing incentives to mainstream institutions for contributions.

Bureau of Alcohol, Tobacco and Firearms

Question: Legislation has been proposed to give ATF authority to collect a user fee for labelling and testing. The legislation projects to collect $5 million, and this will be used to offset reductions in this budget. This has been proposed in the past with no success. Do you have a prognosis as to the possibility of enactment?

Answer: We believe that this is a good piece of legislation. It allows ATF to continue to fulfill its mission, while shifting the financial burden of its labelling and testing service to its beneficiaries. With a new Congress and Administration, and greater emphasis on achieving savings for FY 1994, we are cautiously optimistic about its chances for enactment.

Question: What happens if this proposal is not enacted?

Answer: The appropriation language included in the FY 1994 President's Budget provides that the sum to be appropriated for ATF shall be reduced by not more than $5 million as fees are collected pursuant to the user fee provision. If the proposal is not enacted, no fees will be collected, and usage of appropriated funds not be reduced.

Internal Revenue Service

Question: The budget proposes to increase the number of FTE by 2,000 and $150 million for tax collection and almost a similar reduction in the same account to meet Executive Order 12839. Could you give us some indication how these numbers can be reconciled and how they will impact the IRS?

Answer: The President's Budget for FY 1994 does propose to add 2,000 FTE and $150 million to the IRS budget in order to promote voluntary compliance and raise additional revenues. The majority of these resources, about 1,850 FTE, would be added to the Tax Law Enforcement account which is chiefly responsible for the identification and collection of delinquent taxes. At the same time the IRS is proposing to reduce staffing service-wide in FY 1994 by almost 2,000 FTE to meet the mandate of Executive Order 12839 and realize automation driven productivity savings. Of the 722 FTE associated solely with the E.O. 12839 reduction, none will be taken from the Tax Law Enforcement Account which was held harmless from this reduction. IRS productivity savings in FY 1994 amount to a total of 1,219 FTE. These are savings that can be taken as a result of systems-driven productivity improvements from both earlier investments in technology and increases requested in this budget. Almost 800 of these savings will be taken from the Tax Law Enforcement account because that is where the productivity gains through automation have occurred. As these are savings from increased systems efficiencies, there will be no programmatic effects of this reduction.

Question: The budget indicates that these resources will lead to better and more collections. As you know, this has always helped make reconciliation targets easier to make, but I have to say this Mr. Secretary, this subcommittee has been told that increases of this type will collect substantial revenue. The Chairman has a better perspective on this than I do, but I don't believe the actual revenue has ever met the projections. What are the revenue projections, as a result of this increase? Is this a realistic figure?

Answer: The President's Budget includes, on the receipt side, $1.5 billion in net additional collections through FY 1998 as a result of the requested IRS

compliance initiatives. This amount was scored by the Department's Office of Tax Analysis after careful consideration of IRS projection methodologies and negative factors including reductions in the IRS FY 1993 financial plan due to Executive Order 12839 and required reprogrammings. The revenue estimate is net of these reductions. It is true that IRS revenue initiatives from the late 1980s did not meet the revenue estimates of the time, and that GAO found flaws with IRS' estimating processes. However, building on GAO's critique, IRS and the Department have worked together to refine the estimating methodologies. Current estimates are based more on today's operating environment regarding time to close cases, the volume of cases appealed, and the results of those appeals. They also reflect the amount of additional assessed actually collected. Other technical improvements include the use of current and OMB sanctioned interest rate projections and the opportunity costs of training - both in terms of the length of time it takes a trainee to become productive and the revenue offset from experienced personnel being pulled off line to train new staff. The FY 1991 revenue initiatives have, by now, exceeded the original projections.

United States Customs Service

Three years ago Congress gave authority to Customs to use funds collected in the form of user fees authorized under COBRA to hire inspectors and purchase equipment to provide better service to the industries paying the fees. The law was specific that this was to be a supplement, not replacement. A number of the industries affected have indicated a concern that the positions are going to be used to replace S & E reductions, not supplement them. I hope that is not the case.

Has OMB released the numbers for this fiscal year?

Answer: For FY 1994, we anticipate that no more than ten S&E positions will be offset by COBRA-funded positions nationwide, resulting from marginal adjustments in overall staffing allocations. The remaining COBRA-funded positions which we have requested be made available in FY 94 will constitute enhancements to our present personnel levels. Yes, OMB has approved a total of 195 COBRA-funded FTE for FY 93.

Question: The Customs budget proposes to reduce its FTE by 365, which actually translates to almost 550 FTE for FY 1994. These reductions are slated to come from each discipline in Customs.

How will these cuts be made? Attrition? RIF?

Answer: The net reduction of 542 FTE over two years results from several factors:

- A FY 1993 reduction of 177 FTE and FY 1994 reduction of 265 FTE under Executive Order 12839;

- A "paper" reduction of 200 FTE to reflect actual historical usage based on available personnel funding in the budget base; and

A 100 FTE addition to Southwest border coverage.

Attrition is the most useful option available to Customs. Other options are very costly and can be enormously disruptive and may not achieve the target FTE reduction. In developing its goals for the attrition process, Customs has worked to minimize the impact on line functions. It is our intent to maintain service and enforcement activity at the current levels.

Federal Law Enforcement Training Center

Question: The FY 1994 budget includes no money for the continuing implementation of the FLETC Master Plan. Does this mean the Department is no longer committed to the Plan, or is this a one-Year aberration?

Answer: The Department is still strongly committed to the FLETC's Master Plan's goal of providing the facilities needed at FLETC to provide quality training to the law enforcement community. The Master Plan is reviewed continuously to determine which projects are the most critical, and appropriate budget requests are made. FY 1994 is an aberration in that the FLETC will have substantial committed but unobligated funds available for expenditure.

Financial Management Service

Question: One of the pilot projects that Financial Management Service is working on is the expand electronic payment of benefits. It costs over 36 cents to provide beneficiaries with paper payment, compared to only 6 cents for electronic payment. Considering this cost differential' electronic payment could save the government substantial money, while providing recipients their benefits much quicker and more efficiently. What percentage of recipients currently receive benefits electronically?

Answer: In Fiscal Year 1992, 49.61% of benefit payments were made electronically.

Question: How about employees?

Answer: The latest statistics show that 82% of Federal payroll payments, for the 18 largest Treasury-disbursed agencies, were made electronically.

Question: How about payments to state and local governments?

Answer: Approximately 95% of payments to state and local governments are made electronically.

Question: Has thought been given to mandatory electronic payments?

Answer: FMS has prepared and submitted legislation, which would permit the Secretary of the Treasury to determine the method of payment, to each

Congress since 1986. A new legislative submission is being prepared for the Secretary's approval.

In the past, the issue of mandatory Direct Deposit did not stimulate much Congressional interest. Also, Union leadership is less than supportive of attempts to mandate method of payment.

Question: What will it save?

Answer: Based upon a $0.31 difference between the cost to Treasury of issuing a check and the cost of issuing an electronic funds transfer, the Federal Government would save $130 million annually if all payments were made by EFT. Other Federal Agencies incur some costs, but no analysis has been made. In general savings would increase if these costs were included.

Question: Wouldn't education about the savings strike a nerve?

Answer: In addition to the efficiency and safety of Direct Deposit payments, FMS marketing campaigns have also addressed the cost savings to the taxpayer. The public (generic) would most likely feel people should be paid electronically. However, when it comes to the public (individual) personal prejudices and preferences dictate mode of payment.

Strong support from the Administration and Congress, as well as good public promotion, would be needed to enact mandatory Direct Deposit across the board.

United States Secret Service

Question: The Secret Service has dedicated numerous resources to the financial investigations connected with Resolution Trust Corporation activities. The authority for the RTC expires at the end of this year. The Secret Service authority is tied to the RTC authorization. Are there any plans to seek authority for the Service to continue in these types of financial investigations?

Answer: As a result of problems within thrift institutions, the Secret Service received temporary concurrent jurisdiction (P.L. 101-509) to "conduct or perform any kind of investigation, civil or criminal, related to fraud or other unlawful activity in or against any federally insured financial institution or the Resolution Trust Corporation".

The Financial Institution Fraud program is currently beginning to receive all criminal referrals from Treasury regulated institutions to not only apprehend suspects, but also, for the first time, see a complete picture of the safety and soundness of Treasury regulated institutions. The Secret Service has requested that this temporary jurisdiction be made permanent. The Department is currently reviewing this request.

QUESTION SUBMITTED BY SENATOR GRASSLEY

Departmental Offices--Office of Foreign Assets Control

Question: Mr. Secretary, last month the Treasury Department issued a report on assets held in the U.S. by terrorist countries. (It is notable that the first report was actually due one year ago, but the previous Administration chose not to comply with a law of Congress.) But that report is only half complete. Why does the Treasury Department believe that it lacks the authority to report on assets held by terrorist organizations?

Is there another government organization more suited to reporting on assets held by terrorist organizations? (Possible suggestion: the Department of Justice because of their experience in tracing the financial assets of organized crime, as well as drug traffickers.)

Answer: Treasury believes that under current Executive orders, its Office of Foreign Assets Control ("FAC") lacks authority to require banks to block and report on the generic category of "terrorist organizations". However, FAC believes that it does have authority to block and report to Congress those assets of terrorist organizations that are determined to be specially designated nationals of one or more of the terrorism-sponsoring states against which FAC enforces comprehensive economic embargoes. FAC is currently pursuing the specially designated nationals (SDN) approach.

Treasury believes that FAC, which is charged with administering and enforcing Presidentially-imposed economic sanctions programs and currently controls nearly two and one-half billion dollars in blocked assets of terrorism sponsoring countries, is the most appropriate government entity to compile and, where authorized, take action against the assets of terrorist sponsoring states and the international terrorist organizations which are associated with them.

Further Information: The Treasury Department's Office of Foreign Assets Control ("FAC") has overall authority for the administration and enforcement of economic sanctions programs against five of the six countries on the Department of State's list of state sponsors of terrorism (Cuba, Iran, Iraq, Libya and North Korea). Consequently, FAC controls more than two billion dollars ($2 billion) in terrorist-sponsored assets blocked within the United States and $323 million blocked in foreign branches of U.S. banks.

Treasury's authority to collect information derives from the economic sanctions programs it enforces and their underlying statutes, the International Emergency Economic Powers Act (IEEPA) and the Trading with the Enemy Act (TWEA). Unless an organization has been determined to be a blocked entity or specially designated national ("SDN") of an embargoed country, it would not be within the scope of FAC authority; the organization's assets would not be blocked; and FAC would not require reports from banks and other businesses concerning such an organization. To explain further, we are providing basic information on how blocking occurs and how blocked assets are reported.

In the course of a comprehensive embargo program, all the assets (financial and other) of the target government, including companies and organizations owned or controlled by it or acting on its behalf, are blocked. In addition, transactions involving those assets are prohibited; and transactions involving that country or its agents and fronts (SDNs) are prohibited.

The basic blocking and prohibitions are contained in Presidential Executive Orders. Subsequently, FAC regulations are promulgated which set forth requirements in detail. When an embargo goes into effect, Treasury immediately alerts the U.S. banking community. U.S. banks are generally very responsive and promptly begin blocking suspected assets of the embargoed country and advising FAC. We, in turn, simultaneously provide as much information as possible about where we believe such assets may be located.

The banks and other businesses that hold assets belonging to the embargoed government or one of its entities are required not only to block those funds and property but also to report that information to FAC. A combination of the large scale blockings that occur early in an embargo, the later discovery of hidden assets, and the "capture" of attempted transactions produce the large amounts of blocked assets under FAC control.

In the case of terrorist organizations generally, there currently is no overall basis for banks and others to identify, block and report such assets. However, notwithstanding the limitations on FAC's authority to block and require banks to report on terrorist organizations' funds generally, FAC will be able to impose those sanctions and reporting requirements with regard to terrorist organizations which are determined to be specially designated nationals ("SDNs") of one of the embargoed sponsor states.

Even while we are actively pursuing the designation of terrorist groups linked to the embargoed terrorism-sponsoring states, it is important to recognize, that few, if any, international terrorist organizations are likely to conduct transactions or to open bank accounts in a manner that would enable either financial institutions or the U.S. government to identify with ease the terrorist outfit's connection to those funds. Consequently, as Senator Grassley has urged, we will be coordinating our efforts with the Federal Bureau of Investigation and other appropriate government agencies in determining terrorist organizations' assets in the United States.

Furthermore, we have already prepared and will be forwarding momentarily an update to the terrorist assets baseline report that we provided to the Congress on April 19. That update contains greater totals for the blocked assets of Cuba, Iraq, Libya, and North Korea. In addition, as noted above, we are requesting the FBI and other agencies to provide any information they may have about assets in the U.S. of either terrorist states or international terrorist organizations. To the extent that such information, if it exists, might be classified, we will confer with those other agencies on the procedural mechanisms under which such information might be presented to the Congress.

SUBCOMMITTEE RECESS

Senator DECONCINI. Have a good day. The subcommittee will recess until 10:30 a.m., Wednesday, June 9.

Secretary BENTSEN. Mr. Chairman, nice being with you.

[Whereupon, at 11:36 a.m., Thursday, May 6, the subcommittee was recessed, to reconvene at 10:30 a.m., Wednesday, June 9.]

TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1994

WEDNESDAY, JUNE 9, 1993

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:30 a.m., in room SD–116, Dirksen Senate Office Building, Hon. Dennis DeConcini (chairman) presiding.

Present: Senators DeConcini and Bond.

DEPARTMENT OF THE TREASURY

INTERNAL REVENUE SERVICE

STATEMENT OF MARGARET M. RICHARDSON, COMMISSIONER

ACCOMPANIED BY:

MICHAEL P. DOLAN, DEPUTY COMMISSIONER
C. MORGAN KINGHORN, ACTING CHIEF FINANCIAL OFFICER
HENRY H. PHILCOX, CHIEF INFORMATION OFFICER
PHIL BRAND, ACTING CHIEF OPERATIONS OFFICER
LARRY WESTFALL, PROGRAM MANAGER, TAX SYSTEMS MODERNIZATION
DONALD VOGEL, ASSISTANT COMMISSIONER, CRIMINAL INVESTIGATION
PHILLIP DIEHL, COUNSEL TO THE SECRETARY AND CHIEF OF STAFF

OPENING REMARKS

Senator DECONCINI. My apologies to you, Commissioner, for my tardiness. I was over at the House Judiciary Committee. I do apologize.

Today, the subcommittee will review the fiscal year 1994 budget request of the Internal Revenue Service and the U.S. Customs Service. We begin our hearings this morning with the Internal Revenue Service. We are very pleased to have the Commissioner, Ms. Peggy Richardson, before the subcommittee today. Congratulations on your appointment. Ms. Richardson, you have in my opinion one of the very biggest, most important, most difficult jobs in this town. The IRS has had four different Commissioners in the past 4 years and, as a result, I believe that it has made it much more difficult to put into effect changes that would be more beneficial to the public and save money at the same time. I truly hope that you will

stay here for 4 years or longer so there can be some continuity, particularly now when tax systems modernization is starting to be implemented. You have a good staff and some fine people but I think leadership is determined from the position of the Commissioner. I surely hope that we can work with you to make your life a little easier. That is not going to be easy in itself due to the fiscal restraints that we all face.

The fiscal year 1994 budget for the Internal Revenue Service includes $7.4 billion and 116,000 FTE's. This amount is $284 million or 792 FTE's above the fiscal year 1993 enacted level. Madam Commissioner, I have to say that this is the smallest requested increase for the IRS that I have seen in the past 4 to 6 years. However, having said that, it is still the largest increase for any of the agencies under our jurisdiction and, as a matter of fact, many agencies are being cut from the enacted levels.

HOUSE ACTION

As you know, the House has already marked up its appropriation bill for fiscal year 1994 and has, as I understand it, reduced funding for the IRS by $120 million from the request of the administration. While it is much too early to say what we will do on this side, I have to be honest and tell you that with every year that passes it gets more and more difficult to fully fund the President's request and particularly in the area of Internal Revenue because it is always going up. I know you have many important initiatives which you need to fully implement, particularly in the compliance area, the tax system modernization. I just assure you that we want to work out whatever we can but we hope that you too will perhaps work with us to prioritize and see what we can do on some of these particular initiatives that we must enact but do we have to do them all this year at the same level. I don't know the answer to that question.

We look forward to working with you. It is going to be the most difficult year that I have chaired this committee in trying to find the money for not just your agency but others as well.

I am pleased to yield to my ranking member, Mr. Bond.

STATEMENT OF SENATOR BOND

Senator BOND. Thank you, Mr. Chairman. It is a pleasure to join you in welcoming the Commissioner. We have had the opportunity to talk by phone on a number of matters. Madam Commissioner, we are very much impressed by your willingness to undertake this job. Your background, your commitment to this is particularly interesting given the remarks that the chairman has made about the difficulties we face. I look forward to hearing your testimony and discussing some of the initiatives. If we can truly gain additional revenues that are owed the United States by spending money, I am one who thinks it would be penny wise and pound foolish to cut back on the needed resources to make sure that we collect the taxes that are owed.

Mr. Chairman, I will save most of my comments for the discussions in the question and answer session.

Senator DECONCINI. Thank you.

Ms. Richardson, please proceed.

STATEMENT OF MARGARET MILNER RICHARDSON

Ms. RICHARDSON. Mr. Chairman and distinguished members of the subcommittee, I wonder if I could have permission to submit a written statement?

Senator DECONCINI. Without objection, so ordered.

Ms. RICHARDSON. I have a shorter summary. I appreciate the opportunity to be able to be here today. It is the first time I have testified as Commissioner so it will be a particularly memorable occasion for me. I would like to introduce the people who are here with me today. Mike Dolan is the Deputy Commissioner, and I think many of you know him and the others; Hank Philcox, the Chief Information Officer; Phillip Diehl, Counselor to Secretary Bentsen at the Treasury Department. On my left is Phil Brand, the Acting Chief Operating Officer, and Morgan Kinghorn, the Acting Chief Financial Officer. Also here is Don Vogel, the new head of the Criminal Investigation Division. Don and I are the new faces here today.

As you mentioned, we have a fiscal year 1994 budget of almost $7.4 billion which is an increase of about $284 million, the smallest increase in the past 4 years. In asking for this budget, we have tried to balance four different requirements: To meet President Clinton's objective to cut overhead and staffing; our need to continue to modernize the tax system; the need to strengthen programs to improve compliance with the tax laws; and the need to adjust our internal budgets to reflect the changing mix of work.

Our principal requests for additional funding include $186 million for our tax systems modernization effort, $207 million for mandatory cost increases which we really feel are needed to maintain our current programs, and then $150 million for compliance initiatives. The costs of these programs are offset by about $300 million in reductions that we have tried to take as a result of productivity savings, cuts in our administrative costs, and savings from information systems that have been implemented in the past.

We feel that the investments that you have been willing to make in the past few years in our tax systems modernization effort are paying off. In our proposed fiscal year 1994 budget, that payoff is reflected in productivity savings and cost reductions that are certainly the largest offset to any IRS budget proposal that has ever been presented. I feel confident that if we can maintain our momentum on modernizing the tax system, we can capitalize on the structural changes in the programs and in our organization that the modernization effort affords us and we will have even more substantial savings in the next few years.

PRESIDENT'S FTE REDUCTION

As you know, the President has asked for a reduction in Federal employment over the next several years and about a 1,760-staff-position reduction is reflected in our 1994 budget. We think we can do that through improved productivity through the Tax Modernization Program. In addition to improving productivity from our tax systems modernization efforts, our strategy for reducing staffing is to rely on attrition. We also plan to enhance our frontline compliance effort by redeploying people from our headquarters positions,

both our national office headquarters and our field management staffs.

COMPLIANCE INITIATIVES

Turning to our compliance initiatives, our request asks for $150 million and 2,000 positions to fund 11 new compliance initiatives. Speaking of compliance, I thought you might be interested in knowing that today is the 50th anniversary of what I consider the ultimate compliance initiative. Fifty years ago today the Current Tax Payment Act of 1943 was passed. When it passed, it provided for a permanent system of withholding and quarterly estimated payments.

Senator DECONCINI. I bet that is not celebrated around the country. [Laughter.]

Ms. RICHARDSON. I noticed there was no applause there. [Laughter.]

In any event, on that golden anniversary, we really would like to work closely with you and the Congress to renew and rededicate our efforts to assure that levels of compliance are increased dramatically. If they are, maybe we can help you solve some of your money problems this year and next.

INTERNATIONAL COMPLIANCE

Some of those compliance initiatives, and they are described more fully in my longer statement, relate to our international tax efforts. We are hoping to promote the use of the advance pricing agreements in the transfer pricing area, and we want to increase the number of returns we examine in the international area.

UNDERFUNDED PENSION PLANS

We have an initiative relating to underfunded pension plans. We are charged by you all with trying to ensure compliance with minimum funding requirements for pension plans and we want to try to make inroads into determining the extent and the causes of underfunding. We also feel we need to improve the skill level of our pension examiners. So this initiative is directed toward that.

NONFILER INITIATIVE

We have a nonfiler initiative which has gotten a fair amount of publicity. For fiscal year 1994, this would build on our earlier decisions to redirect more than 2,200 examination and information reporting positions toward our efforts to bring into compliance an estimated 10 million who are required to, but who do not now file. The new focus would place special emphasis on those who do not file returns for trust fund taxes, and, in addition, it would provide assistance to taxpayers who do voluntarily come forward and file delinquent returns.

BANKRUPTCY AND CID INITIATIVES

We have a bankruptcy initiative which would address the tremendous growth in the bankruptcy workload that we have had in the last couple of years. We have an accounts receivable initiative whereby we hope to extend our telephone hours, expand our service

center staffing, and initiate prenotice contact on large dollar cases. We have a document matching initiative which we hope will help us identify and work an additional 600,000 underreported cases. And finally, we have a criminal investigation and electronic fraud filing initiative which hopefully will help us address the dramatic increase we've noticed in electronic filing schemes we have detected. In 1990, we detected about 122 and in the first 4 months of this year we have uncovered about 1,700. Since we view electronic filing as really the wave of the future, we view this as an extremely important initiative.

CURRENT BUSINESS OPERATIONS

As I mentioned, we need some additional funds to cover our current business operations. There are a number of basic costs which we really have little control over, including higher costs for health insurance, retirement funding, within-grade increases, and career ladder promotions. Those increases which we view as mandatory are about $207 million in fiscal year 1994.

TAX SYSTEMS MODERNIZATION BUDGET

Probably the bulk of our concern and what we want to spend some time on today is our information systems request, particularly tax systems modernization. That budget request reflects a total increase of $188 million and about $186 million of that is for what we call our tax systems modernization. However, if you take into account the reductions for one-time costs, the productivity savings and Executive order mandates, the net increase for fiscal year 1994 is only $7.4 million. We view these increases as necessary to fund key systems that are going to be used by our frontline people, also some infrastructure investments in hardware, software, and telecommunications, and our integrated input processing strategy.

INTEGRATED CASE PROCESSING

Our integrated case processing will provide frontline employees from all functions access to examination, collection, or other compliance data, as well as current information on taxpayers' accounts, through one single workstation. That system should enable employees to increase their productivity, reduce errors, and decrease the time they need to complete cases and respond to inquiries. In fiscal year 1994, funding for that initiative will allow us to purchase universal workstations and begin development and installation of the system in our service centers and field offices.

COMPLIANCE RESEARCH AND ANALYSIS

A part of our comprehensive strategy is to identify and reduce noncompliant taxpayer behavior. We have a compliance research and analysis system which will support this effort by providing the capability to analyze taxpayer data and identify the causes of noncompliance. Our requested funds for fiscal year 1994 will allow us to begin development of this system which we believe is critical to improving voluntary compliance and reducing the tax gap.

TELEPHONE ROUTING INTERACTIVE SYSTEM

Another information system project is the telephone routing interactive system which supports one-stop telephone service. It provides an automated routing system that permits callers to direct their calls to the appropriate type of assistance. It also will enable taxpayer inquiries to be resolved by the automated system without assistance by an IRS employee, some basic inquiries that can be handled over the phone.

CORPORATE SYSTEMS MODERNIZATION

Our infrastructure investments include an increase for two major acquisitions. First, we have funding for what we call the corporate systems modernization/mirror image acquisition which is an initiative that allows us to award a contract in fiscal year 1994 that will both sustain our current tax administration system and support the redesigned tax processing system when it is implemented.

SERVICE CENTER SUPPORTS SYSTEM

The second major acquisition is the service center support system, and that is scheduled for award in fiscal year 1995. That is the largest single procurement initiative we have planned for tax systems modernization.

Senator DECONCINI. Which one is that?

Ms. RICHARDSON. The service center support system. That is hardware and software that will be procured under that contract to replace our existing mainframe computing capabilities and will provide the platform for all our tax systems modernization applications.

INTEGRATED INPUT PROCESSING

Our overall integrated input processing strategy for tax systems modernization includes three projects for which funding is being requested. One is a project that is going to help us replace obsolete and inefficient imaging and character recognition equipment with state-of-the-art systems at three more sites in 1994. We have done it already in a couple of sites but we want to do it in three more. We have a cash management system which will be utilized to acquire support services to expand our Taxlink prototype. That is a program whereby we increase our ability to process, transfer, and deposit funds electronically. The electronic management system component of the project serves as the point of electronic communications with the business community and, ultimately, the general public. We anticipate that system to send, receive, control, and secure electronic data that is transmitted to and from the IRS, such as tax return, currency transaction, payer, and employer information. The increase for that project will be used to purchase hardware, software, and supplies necessary to expand testing of the TeleFile project and will be used to purchase equipment, maintenance, services, and storage devices to support increases in the volume of electronically filed returns.

TSM ACCOMPLISHMENTS

Well, what have we accomplished to date? I believe that some of our earlier investments have already produced positive results. We have provided taxpayers with alternatives to filing paper returns and making their payments through paper processes, alternatives that really deliver faster refunds, guarantee more accurate returns, and cost the Service much less to process. We have been able to provide our employees with online access to accurate and complete taxpayer information. It allows them to respond much more quickly to inquiries and to resolve problems much earlier. We have our corporate files online project which has provided improved access to taxpayer information for employees and has kept approximately 3.3 million taxpayers from facing needless delays, unnecessary notices, and otherwise being hassled by us. I think that online access has also improved our ability to deal more effectively with taxpayers who choose not to comply.

NO-YEAR FUNDING

I would like to turn for just a moment to the no-year funds issue. At the end of May, we had about $79 million in no-year funds that remained from fiscal years 1990 through 1992. That amount is not committed but it is tied to specific initiative spending plans. Although the money has remained uncommitted while we assessed some changes in our requirements and organizational structure and the capabilities of our new technology, we think we have handled it in a very responsible fashion. We appreciate the flexibility you have given us in the past through the no-year authorization and we really think it has allowed us to maximize resources as we have managed our procurements.

TSM AND THE FUTURE

There are a few other TSM issues I would like to touch on for just a moment. We have invited critiques, as you all know, of our tax systems modernization efforts from the GAO, from our own internal audit, from the National Research Council which is an arm of the National Academy of Sciences, and also from the Congress. We feel that we have received a number of constructive recommendations and we have taken the advice seriously. We have begun a review of our current organizational structures in response to a number of the concerns that have been raised and we're working to identify opportunities to fully leverage the information technology that the modernization effort is going to provide us. In completing those business studies, we have spent a great deal of time thinking about how we can organize in a way that will enable us to improve the ways we deliver service, influence compliance, and, frankly, administer the tax system. A number of new concepts have emerged from that effort. I think many of those concepts provide us with opportunities to improve significantly the way we do our business.

In the next month or so, we hope to be in a position to brief you and your staff about the concepts and ideas and we would really appreciate your advice and assistance as we move down the path of reorganization. In general, our concepts reflect what we view as

a cross-functional organizational structure which builds around the notion of a one-stop taxpayer access by telephone, rather than a multistop, correspondence-driven organization. I guess you probably know as well as I that to most taxpayers the IRS is the IRS, it is not a collection division or an enforcement division or whatever else.

We want to provide a system that has instant access to all relevant information for our employees so that if someone calls on the telephone, we don't have to promise to get back to them within 2 weeks or 2 months. We would like to have compliance programs that are designed to meet the needs of taxpayer market segments, and we would like to enhance our compliance rate well above the 80 percent that we now have. I think we feel very strongly that the 20 percent of the taxpayers who don't comply are really very unfair to those 80 percent that do try to comply.

We really need to reduce the paper submissions. We are being inundated by paper. The expense, both in terms of the storage costs and the processing costs, is astronomical now and not going to slow down if we don't have a way to reduce the paper submissions. We need some geographic flexibility in the way we can locate our employees and we feel we can do that by linking things up electronically.

We want to have a leaner, but not meaner, organization that employs an interdisciplinary work force and we need some highly skilled people with superior computer skills, detailed knowledge of the tax law, and outstanding interpersonal skills to deal with taxpayers.

TSM TRANSITION MANAGER

I would like to underscore the importance of our TSM efforts and that the importance of having to integrate them throughout our organization has caused us to create a position for a Tax Systems Modernization Transition Manager who reports directly to the Deputy Commissioner and to me. He is also with us here today, Larry Westfall. He is going to oversee the coordination of all of the modernization-related technical, operational, and human resources issues.

TSM AND HUMAN RESOURCE ISSUES

We recognize that our vision of the future can never become a reality without the commitment and support of all of our work force, and to that end we are paying very close attention to the people issues related to our modernization effort. We have an unprecedented effort underway to bring our human resources organization into a position to deal with the critical issues for the future, and we have brought together, we think, some of our best talent to develop some components of our human resources master plan that will work hand in hand with our modernization efforts.

Mr. Chairman, I would like to conclude by saying that our fiscal year 1994 budget request reflects what we view as a very deliberate melding of our commitment to achieve the efficiency and economy goals embodied in the President's program and our urgent need to continue to improve tax administration and provide better service to the American taxpayer. We have to keep our tax system

running while we're investing in the modernization effort, we must provide adequate support for our work force, and we need to invest in modest but much needed increases in enforcement functions to address the problem areas.

We believe that each of these increases we have asked for is absolutely necessary to tax administration. Our workload is increasing and it is becoming more complex, our mandatory stay-in-business costs are increasing, and we must continue to forge ahead in modernizing our systems. We seek your support for these absolutely critical investments. We very much appreciate the support you have shown particularly, Senator DeConcini, in the past and that of your committee. We look forward to working with you in the future and hopefully of gaining your continued support. You mentioned that you would like to see me there for 4 years, I was hoping it would be 8.

I or one of my colleagues would be delighted to try to answer any questions that you and Senator Bond have.

PREPARED STATEMENT

Senator DeConcini. Thank you, Ms. Richardson, very much for the very good presentation. Your full statement, as I said, will be part of the record. I appreciate the detail that you have included in that statement.

[The statement follows:]

STATEMENT OF MARGARET MILNER RICHARDSON

Mr. Chairman and Distinguished Members of the Subcommittee: I appreciate the opportunity to appear before your Subcommittee today. It is the first time I have testified before Congress as Commissioner of Internal Revenue. With me are Deputy Commissioner, Michael Dolan; Acting Chief Financial Officer, Morgan Kinghorn; Chief Information Officer, Hank Philcox; Acting Chief Operations Officer, Phil Brand; TSM Program Manager, Larry Westfall; and Assistant Commissioner for Criminal Investigation, Donald Vogel.

Mr. Chairman, I understand that your Subcommittee has been very supportive of the IRS's budget requests over the past several years. I look forward to earning your continued support—particularly, support for our fiscal year 1994 budget which is essential to our overall progress in changing the way we do business and better serving the taxpaying public.

IRS ACTIONS AND THE PRESIDENT'S AGENDA

For fiscal year 1994, the proposed budget of almost $7.4 billion represents a net increase of $284 million and 792 positions over fiscal year 1993, the smallest net increase the Service has requested in four years. There are significant reallocations of funds among programs which I will describe later.

The Service's proposed fiscal year 1994 budget balances four requirements: addressing the President's objective to cut overhead and staffing; continuing the efforts to modernize the tax system; shoring up programs to improve compliance with the tax laws; and adjusting internal budgets to reflect the changing mix of work.

The only major requests for increases include the $186 million to continue Tax Systems Modernization, another $207 million for mandatory cost increases to maintain current programs, and $150 million for compliance initiatives. These costs are partially offset by nearly $300 million in reductions as a result of productivity savings, cuts in administrative costs and savings from information systems changes. Taking into account these changes, we are requesting a net increase of 792 positions and $284 million.

MANAGING AT LOWER COST

The Internal Revenue Service's proposed fiscal year 1994 budget seeks to implement one of President Clinton's key goals—managing our operations at a lower cost. TSM investments made over the last three years are paying off. In the proposed fis-

cal year 1994 budget, the productivity savings and cost reductions are by far the largest offset to any IRS budget proposal that has ever been presented. I am confident that if we maintain the momentum on modernizing the tax system and capitalize on the structural changes in programs and organization TSM will afford, even more substantial savings will be possible in the future.

IRS is sharing in the President's goal to reduce federal employment. For IRS, this translates into a reduction in staff in fiscal year 1994 of approximately 1,760 positions. Reinventing IRS through Tax Systems Modernization will improve productivity, allowing us to accomplish a large part of this reduction. Our strategy for reducing staffing is to rely on attrition and shore up the frontline compliance effort by redeploying people from overhead positions in our headquarters and field management staffs.

Improving frontline compliance activities is a high priority of the Service. Consequently, while Appropriation III staffing for these programs properly reflects adjustments from systems-related productivity savings, none of the additional reductions required to meet the President's goal have been used to reduce Appropriation III funds for compliance programs.

COMPLIANCE INITIATIVES

Our fiscal year 1994 request includes $150 million and 2,000 positions to fund 11 compliance initiatives. Specifically, these 2,000 additional positions will be used in traditional enforcement programs, including examinations and criminal investigations, and for special initiatives in international, underfunded pension plans, taxpayer assistance, and collection. Each of our 11 compliance initiatives is designed to address areas of non-compliance that most need attention or to focus on operations that require additional staffing. Examples include:

—International Tax Compliance ($30.5 million and 177 positions). Fiscal year 1994 dollars are targeted to boost the investments in staff and thus boost the number of international returns examined, expand the use of key information, outside experts and consultants, and heavily promote the use of advance pricing agreements.

—Underfunded Pension Plans ($2.9 million and 43 positions). This is an area of potential vulnerability for the United States Government and its citizens. Charged by the Congress to ensure compliance with minimum funding requirements, the IRS will seek to make inroads in defining the extent and causes of underfunding and improving examiner skills and the selection of returns for examination.

—Non-filer ($20.3 million and 358 positions). This initiative further supports the Service's ongoing program to bring non-filers back into the tax system. This initiative builds upon earlier decisions to redirect more than 2,200 examination and information reporting positions toward identifying and bringing into compliance the more than 10 million non-filers. We estimate annual revenue loss at $10 billion from non-filing of individual income tax for fiscal year 1993 alone. The new focus would place special emphasis on non-filers of trust fund taxes and would provide assistance to taxpayers who voluntarily come forward and file delinquent returns.

—Bankruptcy ($3.4 million and 60 positions). To address the growth in new bankruptcy cases for IRS (more than a 50 percent increase between fiscal year 1990 and what we expect in fiscal year 1993), new Collection positions will increase special procedures staffing to address increasing workload; Chief Counsel positions will protect the Service's priority in bankruptcy and secure standing orders to compel filing of returns prior to bankruptcy bar dates.

—Accounts Receivable ($24.8 million and 529 positions). To reduce the $71 billion accounts receivable inventory, Collection will extend hours of key Automated Call Sites, expand the staffing for Service Center Collection, and initiate prenotice contact on large dollar cases. Taxpayer Services will extend the hours devoted to working installment agreements and other account work.

—Document Matching ($4.3 million and 109 positions). We will identify and work 600,000 additional underreporter cases in the document matching program.

—Criminal Investigation/ELF Fraud ($5 million and 81 positions). To address the dramatic rise in electronic filing schemes detected—from 122 for all of 1990 to almost 1,700 though the first four months of 1993—this criminal investigation initiative will provide important help to combat this explosion.

In addition, we have singled out other initiatives addressing areas of increased collection efforts and enhanced examination efforts.

MAINTAINING CURRENT BUSINESS OPERATIONS

There are certain basic cost increases over which management has little control. The increases include the higher costs for health insurance, retirement funding, within-grade increases and career ladder promotions. This budget covers mandatory increases in costs—an additional $207 million in fiscal year 1994. Other significant factors are also affecting costs: increased seniority, declining attrition, and the changing nature of our work.

—First, increased seniority and a decline in attrition. Staff increases in the late eighties mean more people now moving up the ranks of the organization. Lower attrition—a marked decline over the past three years from nearly 9 percent in fiscal year 1990 to only 3.5 percent so far in fiscal year 1993—also results in a more experienced but also more expensive workforce.

—Second, the changing nature of our work. We have made a conscious decision to concentrate on more complex work involving higher income individual and corporate tax returns. Again, this requires better trained, more experienced employees to do the work. Similarly, we acknowledged the significance of the broad role being played by Criminal Investigation when we recognized the legitimate increases in the journeyman level from GS–11 to GS–12.

In addition, as the tax filing population increases, we still find it necessary to increase staff to keep up with the increase in new business. In a fully modern tax system that has far more significant opportunities for productivity savings than the present system, we expect that this kind of ripple effect in staff increases will not be necessary to accommodate workload growth.

In fiscal year 1994, we expect about 199 million primary tax returns, up 3.4 million over the current year's estimate. We also estimate an additional 300,000 documents like amended returns and extensions to file. We are requesting almost 300 new positions to meet the growth in fiscal year 1994 workload.

INFORMATION SYSTEMS: TAX SYSTEMS MODERNIZATION

The fiscal year 1994 Information Systems budget request reflects a total increase of $188 million, which includes an $186 million increase for Tax Systems Modernization (TSM). However, after reductions were taken for one-time costs, productivity savings and Executive Order mandates, the net increase for fiscal year 1994 was only $7.4 million.

Our 1994 plans for TSM continue the incremental multi-year investments that will enable IRS to fully implement a modernized tax administration system by the year 2001. Later in my statement, I will be discussing a number of major TSM efforts now being pilot tested. Overall, what we plan to achieve in IRS is characterized by modernized systems that facilitate: electronic vs. paper receipt, use and storage of taxpayer data; one-stop customer service by telephone, rather than multiple contacts through correspondence; on-line access to information by all IRS employees who need the information to do their jobs, as opposed to one that takes days or weeks to secure copies of returns and other necessary tax information; and early detection and resolution of compliance issues, as opposed to one, two or three years after the fact.

Major TSM increases for fiscal year 1994 will fund key systems that will be used by front-line tax personnel; infrastructure investments in hardware and software and telecommunications; and our integrated input processing strategy for receipt and processing both paper and electronic information.

SYSTEMS FOR FRONTLINE PERSONNEL

Integrated Case Processing.—This project will provide us the capability of assembling all current taxpayer information in one electronic case folder accessible by authorized users through a universal workstation. In other words, through one workstation, employees from all functions will have access to examination, collection, or other compliance data, as well as current information on taxpayers' accounts. This system will enable employees to increase their productivity, reduce errors, and decrease the time needed to complete cases or respond to inquiries.

In fiscal year 1994 funding for this initiative will allow us to purchase universal workstations and begin development and installation of this system in the service centers and field offices. This is the first step in moving toward an integrated system supporting both taxpayer service and compliance functions. The universal workstations will be procured through the existing Treasury Multi-User Acquisition Contract (TMAC) contract and will support TSM applications throughout their useful life.

Compliance Research and Analysis System.—A comprehensive strategy of IRS is to identify and reduce non-compliant taxpayer behavior. The Compliance Research and Analysis System will support this effort by providing the capability to analyze taxpayer data and identify causes of noncompliance. Using those results in the long run, we will be better able to deter non-compliant taxpayer behavior. Requested funds for fiscal year 1994 will allow us to begin development of this system which is critical to improving voluntary compliance and reducing the tax gap.

Telephone Routing Interactive System (TRIS).—This project supports one-stop telephone service and will provide an automated routing system that permits callers to direct their calls to the appropriate type of assistance. Also, TRIS will enable some taxpayer inquiries to be resolved by an automated system without assistance by an IRS employee. With the introduction of an automated routing system, there will be less need to manually route incoming calls and employees can spend more time providing substantive assistance.

Fiscal year 1994 funds will allow us to further develop and expand testing of this sophisticated telephone management system. Our long-term vision is to provide one-stop taxpayer assistance largely through the telephone.

INFRASTRUCTURE INVESTMENTS

Our request for Infrastructure investments includes an increase for two major acquisitions:

Funding for the Corporate Systems Modernization/Mirror Image Acquisition (CSM/MIA) initiative will allow us to award a contract in fiscal year 1994 that will both sustain IRS' current tax administration systems and support redesigned tax processing systems when implemented. CSM/MIA will also acquire on-line and mass storage technologies and Central Processing Unit resources to enable the IRS to fully implement CFOL which is enhancing IRS' ability to provide improved rapid services to the taxpayers. Proposals for this effort are currently being evaluated and the award will be made in early fiscal year 1994.

The Service Center Support System (SCSS) contract, scheduled for award in fiscal year 1995, is the largest single procurement initiative planned for TSM. Hardware and software procured under this contract will replace existing mainframe computing capabilities at IRS computing centers and will provide the platform for TSM applications. It will provide capacity relief for the current system and support the implementation of new and redesigned applications as TSM progresses toward full implementation. Hardware, software, maintenance, and training services will be acquired through this procurement over a twelve-year system life. Fiscal year 1994 funding for this project will support procurement activities and the establishment of an office to manage prototypes and rollout. The Service will also purchase a database machine for prototyping at one service center and contractor services related to the SCSS telecommunications acquisition.

INTEGRATED INPUT PROCESSING

Our request in support of the overall integrated input processing strategy for TSM includes funding for three projects:

Funding for Service Center Recognition/Image Processing System will allow us to replace obsolete inefficient imaging and character recognition equipment with state-of-the-art systems at an additional three sites in fiscal year 1994. We currently process 156 million documents using optical character recognition equipment. In fiscal year 1995, with this new equipment we will capture machine readable tax information from more than 175 million documents, including many which now require manual input.

The requested increase for the Cash Management System (CMS) will be utilized to acquire support services to expand the TAXLINK prototype and to include one district office remittance modernization prototype. The TAXLINK prototype is intended to increase the Service's ability to process and transfer funds electronically.

The Electronic Management System component will serve as the point of electronic communications with the external business community and, ultimately, the general public. This system will send, receive, control and secure electronic data that is transmitted to and from the IRS, such as tax return, currency transaction, payer and employer information. In addition, IRS employees will have information they need on-line and accessible through their computer system instead of having to wait for tape delivery, data input or the delivery of information on paper. The increase for this project will be used to purchase hardware, software and supplies necessary to expand testing of the TeleFile project, one step in moving toward increased electronic communications with our customers.

Additional resources for the Electronic Filing System will be used to purchase equipment, maintenance, services and storage devices to support increases in the volume of electronically filed returns. These funds will also allow for the expansion of the Federal/State Joint Electronic Filing project.

Mr. Chairman, I believe that information processing improvements enabled by TSM, in conjunction with our new compliance program initiatives, have enormous potential for improving customer service, reducing accounts receivable, closing the tax gap and increasing productivity. For example, TSM is expected to be fully implemented in 2001, and, by that time, we predict that our workload will have increased by almost 20 percent over current levels. However, we anticipate that TSM will allow IRS to conduct business in the year 2001 without an increase in staff and at the same time produce additional revenue through improved compliance systems, provide increased customer service, and realize savings through electronic receipt and storage of taxpayer data.

With the benefits of the modernization initiative also come significant costs. However, not pursuing TSM would be even more costly in the long run. We estimate that implementing, operating and maintaining TSM through the year 2008 will require a capital investment of $7.8 billion above the projected $15.5 billion cost to operate and maintain our current antiquated systems for the same period. Through the end of fiscal year 1992, IRS has already spent approximately $800 million of this capital investment.

This overall investment will generate substantial taxpayer and IRS benefits, including reduced/avoided costs, interest savings and increased revenue estimated at $12.6 billion. Consequently, we estimate that the total benefits, less the net cost of $7.8 billion, results in a $4.8 billion net benefit to the government. In addition, we estimate taxpayer benefits over the life of TSM will include a billion fewer hours dealing with the IRS and a $5.4 billion reduction in out-of-pocket expenses paid in interest and tax preparer assistance fees.

ACCOMPLISHMENTS TO DATE

Prior investments we have made are already producing results:

—Providing taxpayers alternatives to filing paper returns and payments, alternatives that deliver faster refunds, guarantee more accurate returns, and cost the Service less. (For example, electronic filing this year is responsible for over 12 million tax returns being processed more efficiently and more effectively than ever before. The error rates for these returns was less than 2 percent compared to over 17 percent for paper returns.)

—Providing our employees on-line access to more accurate and complete taxpayer information, access that allows them to respond much more quickly to taxpayer inquiries and resolve problems earlier and improves our ability to deal more effectively with non-compliant taxpayers;

—Being more responsive to taxpayer inquiries. For example, our Corporate Files On-Line project has provided improved access to taxpayer information for our employees and has kept 3.3 million of our customers from facing needless delays, unnecessary notices, and hassles with the IRS. Before CFOL, taxpayers had to write IRS when they needed a copy of their tax return and it was not unusual for them to wait 4 to 8 weeks. However, with CFOL, we are now able to expeditiously furnish a printout of information that contains most of the data shown on the taxpayer's return. Many government agencies, colleges, and businesses are willing to accept these printouts in lieu of copies of returns thus saving the taxpayer weeks of time they would have been waiting for a copy of their return.

NO-YEAR FUNDS

As of the end of May, about $79 million in no-year funds remain from fiscal years 1990 through 1992 that are not committed but are tied to specific initiative spending plans. These funds remained uncommitted while we assessed changes in our requirements and organization structure and the capabilities of new technology. We very much appreciate the flexibility the Congress has provided us through no-year authorization to meet these contingencies. Mr. Chairman, I assure you that having this flexibility allows us maximize our resources while effectively managing our procurements.

OTHER TSM ISSUES

Throughout the life of TSM, we have invited critiques of our efforts. GAO, Internal Audit, the National Research Council, and the Congress have made rec-

ommendations regarding our Modernization program. Consistently these reviews have focused on three areas: business change opportunities, technical expertise, and human resources. We have taken their advice seriously and acted on their recommendations. I would like to briefly discuss these three areas.

REINVENTING IRS

Mr. Chairman, we have undertaken a broad review of our current organizational structures in order to identify opportunities which fully leverage the information technology TSM provides. In completing these business studies we have pushed beyond our current organizational paradigm in defining a better way to deliver service, influence compliance, and administer the tax system. In short, we are moving beyond the incremental improvement horizon in reinventing how we do business—to provide major breakthroughs in the ways IRS encourages and enforces compliance with the revenue laws and improves service to our customers. Many new concepts have emerged from the effort and provide us an incredibly rich set of improvement opportunities.

In general terms, we believe the IRS of the future will be characterized by:

—A cross-functional organizational structure built around one-stop taxpayer access by telephone, rather than a multi-stop, correspondence-driven functional organization;

—An integrated information system that provides instant access to all relevant information, allowing us to significantly reduce the time it takes to close routine issues such as income not claimed on taxpayers' returns and the errors made on their returns;

A tax information and processing system that supports complete, integrated and multi-year taxpayer files rather than the piecemeal, free-standing systems now in place;

—Compliance programs which are designed to provide a comprehensive response to the compliance behaviors of taxpayer market segments leading to a voluntary compliance rate well in excess of 90 percent;

—A dramatic reduction in paper submissions of any kind through both receipt of more than 80 million electronically filed returns and electronic payments;

—Geographic flexibility in location of employees and operations through electronic linkages;

—A leaner, flatter organization which employs an interdisciplinary workforce ready to address a range of taxpayer issues; and

—A highly skilled and empowered workforce with superior computer skills, detailed knowledge of tax law, and outstanding interpersonal skills.

To manage the difficult problems involved in making the transition from the old way of doing business, we have appointed an executive level "transition manager". The TSM Transition Manager reports directly to the Deputy Commissioner and oversees the coordination of all TSM related technical, operational, and human resources issues.

TECHNICAL EXPERTISE

One of the recommendations made in the National Research Council report on TSM was to establish a Systems Architects' Office to assist in managing the *technical* components of TSM. IRS has established this office, to report directly to the Chief Information Officer. We obtained special positions from the Office of Personnel Management to ensure we could recruit the best technical talent. We have selected the first two computer scientists to fill these important positions and are awaiting the completion of background investigations before bringing them on board.

Further, on March 9, 1993, IRS competitively awarded a contract for the Federally Funded Research and Development Center (FFRDC) to provide high level technology assessment and strategic planning and acquisition support for TSM. The FFRDC will provide technical expertise and direction needed for TSM, and will establish a TSM Institute devoted exclusively to TSM technical issues. The contract awarded to a not-for-profit consortium has a value of up to $78.5 million over a five-year period.

HUMAN RESOURCES

Recognizing that our vision of the future can never become a reality without the commitment and support of our work force, we are paying close attention to the people issues related to the Modernization. In an unprecedented effort to bring our human resources organization into position to deal with the critical issues for the future, we have brought some of our best talent together to develop components of

what will become our Human Resources Master Plan. The goal is to produce a "human systems architecture" for the Service that parallels the Design Master Plan for Tax Systems Modernization and supports the Business Vision. A number of components of this master plan are already in place, while others are now being brought together.

The initial plan for Human Resources Issues has been published. This plan offers a framework for dealing with issues such as retraining, recruitment and job redesign. Actions and issues flowing from the review of our organizational structure will provide another major component of the HR Master Plan. Specifics including year by year, site by site requirements involving major people elements such as the numbers and kinds of employees needed, training and retraining requirements, work flow and work environment are being addressed. A Resource and Support Study and a Customer Focus Plan will produce the long term vision for the way in which HR services will be provided and a methodology for assessing how well HR is meeting internal customers' needs.

CONCLUSION

In conclusion, Mr. Chairman, our fiscal year 1994 budget request reflects a very deliberate melding of our commitment to achieve the efficiency and economy goals embodied in President Clinton's program and our urgent need to continue to improve tax administration and provide better service to the American taxpayer. We must keep our tax system running while we invest in Tax Systems Modernization; we must provide adequate support for our workforce; and we must invest in modest but much needed increases in enforcement functions to address critical problem areas.

I believe that each of these increases is absolutely necessary to tax administration. Our workload is increasing and becoming more complex; our mandatory stay-in-business costs are increasing; and we must continue to forge ahead in modernizing our systems and improving compliance. We seek your support for these absolutely critical investments.

I would be pleased to answer any questions you or the Members of the Committee may have.

BIOGRAPHICAL SKETCHES

MARGARET MILNER RICHARDSON

Margaret Milner Richardson (Peggy) is a partner in the Washington, D.C., Atlanta and New York law firm of Sutherland, Asbill & Brennan.

Ms. Richardson graduated from Vassar College in 1965 with a degree in political science. In 1968, she received her J.D. with honors from the National Law Center, George Washington University, where she was an editor of the Law Review. While in college, she worked for the Undersecretary of the Army in the International Affairs Office and for the Department of the Air Force in the cost reduction program. During law school, Ms. Richardson was employed by the Office of Education Civil Rights Office in the Department of Health, Education and Welfare, where she assisted in implementing the school desegregation provisions of the 1964 Civil Rights Act.

After law school, Ms. Richardson served as a law clerk at the United States Court of Claims (now the United States Court of Appeals for the Federal Circuit). In 1969, Ms. Richardson joined the IRS in the Office of Chief Counsel, Tax Court Litigation Division.

In 1974, Ms. Richardson became Director of the Administrative Services Division in the IRS' Chief Counsel Office—the first woman to be promoted to executive rank in that office. As director, she had management responsibility for the Office of the Chief Counsel throughout the United States, including recruiting, training, budget, long range planning and technology implementation.

Ms. Richardson joined Sutherland, Asbill & Brennan in 1977 and became a partner in 1980. From 1988 to 1990, she served as a member and chair of the IRS Commissioner's Advisory Group.

A resident of Washington, DC, Ms. Richardson was born in Waco, Texas. She is married to John L. Richardson, a partner at the Washington, D.C. law firm of Richardson, Berlin & Morvillo. They have a daughter, Margaret, who is seventeen.

MICHAEL P. DOLAN

Deputy Commissioner Michael P. Dolan is the highest ranking career official in the Internal Revenue Service, with responsibility for the day-to-day management of the most efficient and effective tax administration system in the world. As the top advisor to the IRS Commissioner, he helps make the major decisions on the direction of the agency and the federal tax administration system. Mr. Dolan has ultimate responsibility for the IRS' $6.7 billion budget and 115,000 employees. He will also play a key role in guiding the agency through its ten-year computer modernization effort, Tax Systems Modernization. This eight billion dollar project will push tax administration into the 21st century, fundamentally improving the way IRS serves the American public.

Mr. Dolan's executive career has been marked by consistent innovation and accomplishment. He was an early champion of a series of human resources initiatives which developed non-monetary incentives to attract and retain high quality employees. His work with the National Treasury Employees Union led to a new era of cooperative labor relations at IRS, a relationship which resulted in a joint effort to work toward improved quality in IRS operations. In his last IRS field assignment as regional commissioner for the Southeastern states, Mr. Dolan was extensively involved in implementing several of the IRS' most promising information systems modernization efforts. He also introduced to the region's executives and senior managers a management approach to improving IRS business processes which led to key improvements in customer service and IRS operation.

Mr. Dolan began his IRS career in 1971 as a revenue officer in Highland Park, Michigan. He transferred to the IRS headquarters in Washington, D.C., in 1972, where he held several positions in employee and labor relations before becoming chief of the labor relations branch in 1977.

After completing the IRS Executive Selection and Development Program in 1981, he served temporarily as the first assistant director of the newly created Houston district of IRS. In 1982 he was named assistant regional commissioner for resources management in the Western Region. In 1985 he became the assistant commissioner for human resources in Washington, the position he held until becoming regional commissioner of the Southeast region in 1989.

Mr. Dolan earned a bachelor's degree in government from the University of Notre Dame and a law degree from George Washington University. He attended the Harvard Advanced Management program in 1988. He is a member of the District of Columbia Bar Association.

A native of Dubuque, Iowa, Mr. Dolan is married to Mary Bishop and has four children.

CHARLES MORGAN KINGHORN, JR.

In his nearly twenty-five years of federal service, Charles Morgan Kinghorn Jr. has designed and implemented lasting management improvements in such diverse organizations as the Environmental Protection Agency, the Office of Management and Budget, and the Internal Revenue Service. He has built financial management and program analysis operations of the highest quality and effectiveness, boosting productivity and quality in service delivery. He has also been an innovator in the areas of financial systems development and government integrity, pursuing both vigorously to combat waste, fraud, and abuse of federal resources. For his considerable accomplishments in safeguarding the public trust, Mr. Kinghorn has received both the Distinguished and Meritorious Presidential Executive Awards, the Secretary of the Treasury Award, and the Donald L. Scantlebury Memorial Award—the most prestigious award in federal financial management. In recognition of his tremendous achievement, Mr. Kinghorn was recently inducted as a Fellow, National Academy of Public Administration.

HENRY H. PHILCOX

As IRS' first Chief Information Officer, Mr. Philcox is responsible for the design, development, implementation and operation of nationwide computer and telecommunications systems in the Internal Revenue Service. He is accountable for over 4,500 information systems professionals and provides program direction and support for over 3,500 field personnel.

Mr. Philcox chairs the Information Systems Policy Board for IRS and directs resources and systems priorities Service-wide. As one of the five members of the IRS

Executive Committee, he is directly involved in making all major decisions on the direction of the agency and the federal tax administration system.

Mr. Philcox is the chief architect of the Service's tax systems modernization (TSM) plan, a ten-year, multi-billion dollar project to update IRS' information systems, and one of the President's Priority Projects. The modernization will bring far-reaching change that will dramatically improve the quality of IRS' products and services and significantly increase employee productivity and professionalism Service-wide. Already new systems that are now on line, such as Corporate Files On-Line, electronic filing and others have significantly improved IRS' responsiveness to the American citizen.

Upon completing the IRS Executive Selection and Development program in 1981, Mr. Philcox became assistant service center director in Memphis, Tennessee. Three years later he went to Dallas, Texas, as assistant regional commissioner for data processing for the Southwest Region. In 1985 he came to National Office as deputy assistant commissioner for returns and information processing. Later he served as assistant commissioner, tax system redesign; assistant commissioner, information systems development and assistant commissioner, information systems management.

Mr. Philcox received IRS' highest honor, the Commissioner's Award, in 1986 and again in 1988. President Bush honored him with the Meritorious Executive Presidential Rank Award in 1989 and the Distinguished Executive Presidential Rank Award in 1991. In 1991 he also was appointed to the National Computer Systems Security and Privacy Advisory Board of the National Institute of Standards and Technology.

A native of Reno, Nevada, Mr. Philcox earned a bachelor's degree in business from the University of Nevada and has completed extensive post-graduate work in information systems and telecommunications at a variety of institutions. He and his wife, Judy, have two children.

PHILIP G. BRAND

Philip G. Brand is the Internal Revenue Service's Chief Financial Officer, one of the top five positions in the agency. As CFO, Mr. Brand is responsible for the development and oversight of the IRS budget and the establishment of its financial policies. He develops standards and controls over IRS financial systems. He is also the principal advisor to the Commissioner of IRS on strategic management, human resources and facilities management, and organizational planning.

The IRS is the largest tax administration agency in the world, with a workforce of over 115,000 employees and an operating budget of almost $7 billion. Managing an organization like the IRS means accounting for the receipt of over $1 trillion dollars in tax revenues each year.

Mr. Brand began his IRS career in 1969 as a revenue officer in Grand Rapids, Mich. He held various positions in the collection and taxpayer service divisions in Houston and Chicago, before becoming chief of the resources management division in 1979 in Chicago.

After completing the IRS executive selection and development program in 1982, Mr. Brand was named assistant regional commissioner for resources management in Philadelphia. He served as director of the personnel division in 1984 in Washington, and in 1986, became assistant director of the Chicago district. Mr. Brand later served two years as the director of the Baltimore district before becoming assistant commissioner for taxpayer service, the position he held until his present appointment.

Mr. Brand received the Commissioner's Award, the highest honor given by the IRS, for his outstanding contributions. He also received the Regional Commissioner's Award for his outstanding work in the Mid-Atlantic Region.

Mr. Brand earned a bachelor's degree in public administration from Roosevelt University in Chicago and a master's degree in administration from Central Michigan University in Mount Pleasant. He has lectured in public finance at Rutgers University in New Jersey.

He is a native of St. Louis. He and his wife, Michele, have two children and live in Catonsville, Maryland.

LARRY G. WESTFALL

Larry G. Westfall, Tax Systems Modernization Program Manager, leads one of the Internal Revenue Service's top priority efforts.

The IRS handles over $1 trillion in tax revenues each year, operates with a budget of almost $7 billion and employs over 115,000 individuals in offices throughout the 50 states and around the world.

Tax Systems Modernization (TSM) is a 10-year, eight billion dollar effort to modernize IRS' computer and information systems. Mr. Westfall is responsible for integrating TSM into all operations of the IRS: returns processing, examination, collection, taxpayer services, employee plans and exempt organizations, international, and criminal investigation.

Tax Systems Modernization is an investment in the future of tax administration. By using new computer hardware and technology, the IRS will encourage voluntary compliance, handle an ever growing workload and reduce the burden of the tax system on the public.

Electronic filing, a system that allows taxpayers to file tax returns by computer, was an early success. Another project, corporate files on line, now makes more taxpayer information directly available to IRS case workers. Today Mr. Westfall sees that dozens of new projects are equally successful, giving taxpayers faster and better quality service.

Before his appointment as Tax Systems Modernization Program Manager, Mr. Westfall held various positions in the IRS. He began his career in 1963 as a revenue officer in Terre Haute, Indiana. Over the next ten years, he served the agency throughout the country. In 1974, Mr. Westfall was selected for the IRS executive development program. This led to appointments as assistant director of the Detroit Computing Center, assistant regional commissioner (collection) for the southwest region, assistant commissioner for collection in Washington, and director of the Austin (Texas) Service Center.

Mr. Westfall's career has been honored by several prestigious awards. In 1983 and 1988 he received the IRS' highest honor, the Commissioner's Award. In 1983 he also received the Meritorious Presidential Rank Award for exceptional performance by executives in the Senior Executive Service. Two years later, he was given the Distinguished Rank Award, the highest recognition available for government career executives.

A native of Vincennes, Indiana, Mr. Westfall has a bachelor's degree in business administration from Indiana State University in Terre Haute. He and his wife, Mary, have two sons, Todd and Andrew, and a daughter, Jill.

DONALD K. VOGEL

Donald K. Vogel has been selected as the new Assistant Commissioner for Criminal Investigation. He succeeds Inar Morics who is now District Director in St. Paul, Minnesota.

As the assistant commissioner, Mr. Vogel will direct the policies and programs for the nearly 4,500 Criminal Investigation employees nationwide. That responsibility includes the enforcement of criminal tax statutes and nationwide programs for investigating suspected tax violations and recommending prosecution.

Mr. Vogel entered federal service in 1965 with the Department of the Army. In 1971 he joined IRS as a special agent in the criminal investigation division in Omaha, Nebraska. He held various positions in criminal investigation including branch chief in Austin, Texas, assistant division chief in St. Louis, and executive assistant to the assistant regional commissioner in Dallas. In 1986 he was selected for the IRS Executive Selection and Development Program and then became assistant director of the St. Paul, Minn. District. In 1988, Mr. Vogel was selected as the Assistant Regional Commissioner (Criminal Investigation) for the Midwest Region, the position he held until his current assignment.

Mr. Vogel has a bachelor's degree in accounting from Creighton University in Omaha, Nebraska. He is a native of Sigourney, Iowa.

TSM AND NO-YEAR FUNDING

Senator DECONCINI. You point out in your testimony the IRS includes an increase of $186 million for continued implementation of the IRS tax modernization system. The increase would provide funding for $717 million for TSM in fiscal year 1994 for a combined total of $2.1 billion that we are investing in this TSM project. I realize that the procurement vehicles for this system make it difficult to plan with any precision the amount you will actually obligate in

any 1 year, but I am really concerned as we look at your past years' unobligated fund. The last figure that I have received as of February indicates $153.6 million; $1 million was still available from fiscal years 1991 and 1992. I think you made some reference here to $80 million.

I want to know what the projections are for 1993 and what can be done so we can better manage these funds. This is a lot of money that we appropriated that, quite frankly, we could use someplace else or you could use someplace else. Why can't we do a better job in obligating. I know some of the answers is because contracts are delayed, but there has to be a better reason than that. It seems to me you shouldn't appropriate the money until the contract is ready to be signed.

Ms. RICHARDSON. I would like to ask Hank Philcox if he would be willing to address the specifics on that.

Senator DECONCINI. Yes; Mr. Philcox, I would like to know if you can estimate what you think is going to be available at the end of this fiscal year?

Mr. PHILCOX. Yes, sir; I think so. Mr. Chairman, there are a lot of reasons and you mentioned one of them—the contracts. We are unsure of exactly when those contracts are going to come in, particularly when we are in the budget formulation process which generally is 2 years ahead of the time when we actually need the money. That is one reason. Another reason that we haven't spent that money is because of the business studies that Ms. Richardson mentioned in her testimony. Those business studies were our effort to go back and look and make sure that where we were locating this equipment was in the places where it would provide us with the cheapest alternative.

Senator DECONCINI. Excuse me, Mr. Philcox. Why wasn't that done before you asked us to appropriate that money? Wouldn't it make good management to have done all of that beforehand, get your "ducks in a row," and then make your request?

Mr. PHILCOX. Well, sir, the business studies that we conducted really were conducted as a part of our relooking at our whole business operation as opposed to the front-end technical work that we did on TSM. So to go back and look at how we conduct business was something that GAO had urged us to do, that the National Academy of Sciences urged us to do, and so when we undertook the study we found that some of the money that we had appropriated for site prep in certain places was money that we could use elsewhere. We didn't want to spend that prematurely, we wanted to try to spend it wisely.

So I think that what we've really done is come up with a method that will allow us to spend more wisely, and we have at this point issued requisitions, as Ms. Richardson said, for about $71 million of the amount that you originally indicated was carryover from the 3 years. We also have earmarked the remaining $78 or $79 million that we have left for very specific needs. We know that in October of this year we will be awarding the CSM/MIA contract which is to replace equipment in our main computing centers. We know how much we are going to need upon award of that contract and some of that money will be designated for that acquisition. We also know that in January 1994 we will be awarding our DPS contract. We

also know how much money we will need for that. And so between those two contracts, the lion's share of that $79 million remaining will be devoted to those particular contracts.

All I can say is that being able to spend this no-year money for those contracts now will reduce our needs for additional funds in future years, in 1995, 1996, 1997. There will still be some large acquisitions that will need to take place but we are glad we saved that no-year money at this point to be able to spend it on what we now know are going to be contracts that will be awarded in the very near future.

Senator DECONCINI. Do you think that's the best management that can be put together for this large amount of money?

Mr. DOLAN. If I might, Senator. I think the basic point you make is one that we have to step up to. When this tax systems modernization was launched, I think it was launched essentially as a technology-driven endeavor. The technologists in our organization were trying very hard to replace what was at that point a very quickly aging technology infrastructure. I think the business parts of the organization and the compliance endeavors probably for too long watched it happen as opposed to using that technology investment not only as a way to modernize and a way to get the infrastructure up to date, but to use it as a huge leveraging to do business in fundamentally different ways. So I think in retrospect, we have to plead guilty on getting to that part of the equation later than we would have liked.

Senator DECONCINI. Mr. Philcox, did you say how much you project for 1993 unobligated?

Mr. PHILCOX. Right now, sir, our estimate is that by the end of this year we will probably carry over about $92 million in unobligated money but that is earmarked.

Senator DECONCINI. That's 1993?

Mr. PHILCOX. That would be 1993. Against the $110 million ceiling that we have, we would estimate about $92 million of that would be carried over. Again though, it is earmarked for spending in 1994 and that money is not in the 1994 budget.

Senator DECONCINI. And does that assume that 1991 and 1992 moneys will be obligated?

Mr. PHILCOX. Yes, sir.

FISCAL YEAR 1994 COMPLIANCE INITIATIVES

Senator DECONCINI. Ms. Richardson, turning to the 11 compliance initiatives you mentioned. If you gave this information, I missed it. You put in $150 million and if we funded all of these, what additional revenues from these initiatives do you project would be forthcoming in 1994?

Mr. KINGHORN. It would be over the a 5-year period about $1.5 billion.

Senator DECONCINI. What's the 1-year period?

Mr. KINGHORN. The first year would bring in about $113 million and then it builds and we would pay for it in about year 2½.

Senator DECONCINI. In all due respect, and I don't have the figures here, we have heard this year after year about compliance, that putting more in the front end makes more come out at the back end. As I recall, it just doesn't work out that way. We have

played that game budgetwise here for too long and either cooperatively or uncooperatively the IRS has always been either a victim or a partner in the scheme of showing how more compliance brings in more revenue so the deficit goes down, and that has not turned out to be the case from my recollection. We used to have charts and all this sort of stuff.

It seems to me we need to revalue some of these compliance initiatives. These ones that you pointed out, I am very impressed that you've turned toward the telephoning and some of the different things. What I really want to know, Commissioner, these 11 compliance, were these initiatives already there when you came into office? Did you have input into these?

Ms. RICHARDSON. Senator, I have had input into some of them but most of the budget was done by the time I came into office.

Senator DECONCINI. And that budget was done when, last year?

Ms. RICHARDSON. I guess it was begun about a year ago at this time because we're starting on the 1995 budget at this point.

Senator DECONCINI. No criticism of President Clinton, but these aren't really necessarily President Clinton's initiatives; these are whatever was in the mill from the standpoint of the professional approach of the Internal Revenue Service for initiatives. Is that really a candid answer?

Mr. KINGHORN. They were obviously in the mill because the budget process really starts with OMB in September and that was obviously before the election.

Senator DECONCINI. Right.

Mr. KINGHORN. But the decisions on these and the impact behind these were done by this administration.

Ms. RICHARDSON. And particularly I would say in the international area.

Senator DECONCINI. Just explain to me, if these are done in September, the concepts are and they are put together, then what do you do? Do you go down to the new OMB in February or March is when I think Panetta got in——

Mr. KINGHORN. We actually submitted a larger series of initiatives, Mr. Chairman, in September. It really is a menu of choices from the old administration.

Senator DECONCINI. How many did you have altogether?

Mr. KINGHORN. I don't remember offhand but it was considerably more than this.

Senator DECONCINI. I see. And they picked the ones that they——

Mr. KINGHORN. They picked some and then the administration came in and fully reviewed——

Ms. RICHARDSON. And I think it is clear that one of the principal compliance initiatives was discussed in the campaign and was discussed quite a bit in terms of the supplemental that came up here in the international area. So while not all of these are necessarily new to the Clinton administration, I think we have certainly had our hand in.

FISCAL YEAR 1993 COMPLIANCE INITIATIVES

Senator DECONCINI. In fiscal year 1993, we provided funding for three of the requested compliance initiatives totaling $25.9 mil-

lion—criminal investigations, collection of delinquent accounts, and international compliance. So we are revisiting this it looks like. Can you tell me if you expect to fully expend funds appropriated for these initiatives in fiscal year 1993, and tell us what progress, if any, has been made in these three initiatives.

Ms. RICHARDSON. I can tell you we do plan to fully spend the money. I am going to ask Phil Brand if he would address the specifics of that. In response to a question I think you were starting to ask earlier though, we are trying to track more carefully the revenue generated by compliance initiatives. I think you are absolutely right that there has been a sense that if we only added more people and more initiatives we could raise more revenue. We're trying to be more responsible.

Senator DECONCINI. I am really concerned. I have been here maybe, some may say too long, but I have been here so long, it is only 17 short, fun years that we have constantly misjudged that. I am so fearful that this administration will want to, out of necessity of trying to reduce deficit, do exactly what the past three administrations have done during my time here. I only urge that you stand up and say "I understand that we're all team players but let's not hang it on IRS" if it isn't really there.

Ms. RICHARDSON. No; and in fairness, I think we have done that with OMB and will continue to do that. How you score for budget purposes is something of a problem. Our tax system modernization efforts, which we think will enhance compliance and probably do a considerable amount to increasing revenue, are not scored for budget purposes in the same way compliance initiatives are. I think people have been forced in the past perhaps into something that may not have panned out the way they had hoped, but it has been done so that for budget purposes you could score some revenue. That is something else we're looking at and hopefully we can work with you and others to straighten out.

Mr. KINGHORN. The screening is a relative conservative number. Because we don't yet have a very good estimate of the indirect revenue of compliance efforts, it does not take that into consideration. So we believe it a fairly conservative number.

Ms. RICHARDSON. But Phil can address the specifics.

Mr. BRAND. I think there are two points I would like to make in response to the question. First, we recognize the need to better track the results of all the compliance activities that we do. We have a prototype of a system right now that is almost ready for online use which will, in fact, do that and give us a much better handle on the actual results.

INTERNATIONAL COMPLIANCE

Second, in terms of the initial results of the initiatives, let me just use the international area as an example. We have been on a buildup of the strength of that program over the past 3 years because of foreign controlled corporations and the interest in that. On an annual basis, we are increasing both the number of revenue agents assigned specifically to international exam, we are increasing the number of examinations of foreign controlled corporations, and as importantly, the coverage, which we are always concerned about, has also increased. When you compare what we are doing

in coverage internationally examined against all corporations, we, in fact, are doing a higher rate of coverage than we are against that other percentage. So there has been demonstrable progress in terms of the impact of what we are doing in international exam.

The same thing in criminal investigations. There has been an increase on an annual basis in the number of successful prosecution cases that we have had. We have talked about the growing health fraud concern. That is a concern; on the other side of the coin, we're detecting a lot more schemes. So that is a positive in terms of our detection process. I believe there has been progress and we have met our compliance initiatives in terms of the amount of dollars that were——

Senator DECONCINI. What is the amount of dollars you were going to collect from the 1993 initiatives?

Ms. RICHARDSON. We're trying to track more closely the initiatives and for our fiscal year 1991 compliance initiatives where we targeted about $1.87 billion for fiscal year 1993, we are currently projecting about $2.28 billion. So we are ahead of target on those. And we will get you those specific numbers.

Senator DECONCINI. Yes; that is management initiatives not just the new initiatives that we funded, right?

Mr. BRAND. Correct.

Ms. RICHARDSON. A combination of that.

Senator DECONCINI. What I am always interested in is these new initiatives that we get hit with up here, because you have your own processes that are there and I think they are pretty darn successful when you look at the revenue you bring in, but then either from OMB or maybe from within or without, it seems like you ask for new initiatives or we impose new initiatives and those projections always bother me. When you put them all together they look pretty good. I wonder how they look just based on what you want. I would like to know how much, for instance, these three initiatives we funded last year made.

Mr. BRAND. Senator, we can provide the information for the record. However, just to point out, those initiatives were not scored as revenue initiatives, they were compliance initiatives and they were management improvement and things like that.

[The information follows:]

These initiatives were not scored as revenue initiatives so, unlike the fiscal year 1991 initiatives, we are not specifically tracking revenue associated with the fiscal year 1993 initiatives. As you know, however, we are providing quarterly reports to you and Chairman Hoyer on the overall progress we are making as a result of additional funding in these areas.

Senator DECONCINI. Yes; you make a good point. I am primarily zeroing in on revenue initiatives but even the compliance ones are subject to that particular problem.

I yield to the Senator. I have other questions but I will continue after Senator Bond.

WHITE HOUSE TRAVEL OFFICE

Senator BOND. Thank you very much, Mr. Chairman. Prior to the start of this hearing, I spoke with the Commissioner and her associates about a letter I had written to the Secretary of the Treasury inquiring, in the light of recent actions, with regard to the White

House travel office. There had been an investigation launched at one of the agencies which had contracted previously with the White House travel office. I was advised by the Secretary that he knew of no contact between the White House and the IRS. I have further been advised that there is an ongoing inquiry by the IRS Inspection Service with a report due I gather within several days which will be made available to this committee which will set forth the findings of the Inspection Service with regard to that particular activity.

INTERNATIONAL TAX COMPLIANCE

Second, Mr. Chairman, you asked a number of the questions I had about all of these wonderful initiatives, and I have been in a position of backing initiatives which will generate wondrous new revenues at the State level. I am very interested in pursuing with you how we know we get what we are paying for. Madam Commissioner, you made comments about international tax compliance. You are requesting $30.5 million and 177 positions. Can you give us an idea of what we are getting now in this international tax area? How much are we collecting in taxes from the international tax?

Ms. RICHARDSON. I will ask Mr. Brand if he has the numbers for the actual international figures.

Mr. BRAND. In terms of adjustments, we characterize it in terms of adjustments because there are proposed actions and as you go through people's various appeals rights and so forth, these numbers change. But, for example, in fiscal year 1992, we proposed adjustments of $1.8 billion as a result of international examinations.

Senator BOND. What is the total amount coming in from international taxes?

Ms. RICHARDSON. Not just——

Mr. BRAND. You mean in terms of the total flow of total revenue or the total flow out of the compliance?

Senator BOND. Total flow of revenue, total flow of compliance; the two things. You are getting in compliance $1.8 billion and——

Ms. RICHARDSON. I think we will have to provide that for the record, if we can.

[The information follows:]

According to the latest available data, for 1990, the total income tax after credits for foreign-controlled domestic corporations was $7.4 billion. These numbers are based on Statistics of Income data—a weighted but statistically valid sample of originally filed returns that would not include returns under examination or amended returns.

Senator BOND. The next question is for fiscal year 1994, what are we going to get for this?

Mr. BRAND. The increase for us will be some additional 50 international tax examiners that will result in almost 300 actual international examinations of corporations that we would not examine otherwise. We are also building additional staff-years into counsel. Counsel are helping us with both the litigation process and expert witnesses that we use in the various litigation processes that we're involved in. There is an automation part of this that helps us do a better job of automating some of the management systems and information that we have. And we're buying more research capabil-

ity with expert witnesses and other outside data bases to give us a better handle on what the scope and size of the issues are. We have had a slow but steady growth in this particular area because of the way the economy is changing in general.

Again, this is scored in terms of revenue but the issue here is not so much revenue, it is in terms of being able to assure ourselves that we're applying the proper amount of coverage and that we are properly competing, especially in the litigation arena. We have not been as successful in a lot of these cases and we are in a buildup process for that expertise.

Senator BOND. All of that is very interesting but my question is, what are we going to get for it?

Mr. BRAND. In terms of dollars?

Senator BOND. Compliance, what are you going to get?

Mr. BRAND. What we are going to do is get an additional almost 300 specific examinations on FCC's——

Senator BOND. No, no, no; not inputs, outputs.

Ms. RICHARDSON. In dollars.

Senator BOND. We have heard that there is a great sum of money that is going to be captured by increased international compliance. If we give you $30.5 million, what is the bottom line going to be?

Mr. BRAND. You will not get an increase in revenue in fiscal year 1994 for this particular investment because of the time that it takes to train international examiners and bring them on line. So you will not get any increase in revenue because of this particular investment. This investment pays off over a longer 5-year period of time. In fact, in the first year of an investment like this, you will get a negative result in terms of actual additional revenue because of the time it takes to build the exam base and the skill of the international examiners.

Senator BOND. OK. But what will we get over the 5-year period? What is going to be payback for the $30.5 million?

Mr. BRAND. My recollection is that it is around $50 million. This is not a high payback in terms of dollars per investment here.

Senator BOND. So $50 million over a 5-year period.

Ms. RICHARDSON. Well, for 4 years.

Senator BOND. So for $30 million now, and I assume that is $30 million this year, $30 plus inflation next year, $30 plus inflation, inflation the year after.

Mr. BRAND. What we are talking about here is what is directly scorable as revenue as a result of this particular initiative. But again, Senator, this is a compliance initiative that is meant to increase the coverage and to increase our knowledge in this particular area.

Mr. DOLAN. Senator, I think the question is a logical one and one to which we wish we had a bigger number attached. I think, for example, one of the places the initiative is going to work is to put a lot more emphasis into something we call advance pricing agreements. In today's world, advance pricing agreements are a relatively embryonic tool used by us and by industry. We have a pipeline that is fairly full right now with other people coming into that process. One of the things about using that is that if we do effective advance pricing agreements today, these are issues that don't fall

out into the controversy stream. They are issues that don't require us to put a revenue agent on them, they are issues that don't require the taxpayer and us to go to appeals, they are issues that don't end up in the courts; they are issues that don't end up with expert witnesses, economists, and all the panoply of controversy costs associated.

Now one of the things that we don't have today is we have not been smart enough or persuasive enough to find a scoring mechanism that says that some part of this investment that's going to go into work at APA, both on a research and on an economic basis, is going to come back. It does, in fact, generate a level of compliance, it does, in fact, generate revenue by virtue of having those issues preordained to be treated in a particular way where the taxability is not at issue and we're not out chasing transaction by transaction the foreign tax gap. This is precisely what today's arm's-length standard has us doing in a lot of these transfer pricing cases. We feel from a business and intuitive sense that putting those issues into an advance pricing environment are ones that make the system run a whole lot better because you have the Government and the taxpayer sure on day one of the treatment of these issues and you don't spend 4 or 5 years and the huge amounts of costs chasing whatever the dollars are going to be at the end of the long controversy process. But we don't have that in the process where we can say to you it is scoreable revenue of x dollars.

Ms. RICHARDSON. The mere fact though that we have put a lot of emphasis on this area and given a fair amount of publicity to it has caused a number of foreign controlled corporations to approach us about the advance pricing agreement process. So as Mr. Dolan said, I don't know that you can tie the $30 million, if we were to get it, to a specific revenue from the advance pricing agreements. I think the fact that we are going to step up our compliance effort, even though it is scored as a $50 million effort, is going to impact on people's desire to communicate.

Mr. DOLAN. We ought to be able to at least infer or project, even if it isn't posted to the official scoreboard. Today, we can't do that. We know we need to do that in order to satisfy both you and ourselves about the investment.

Senator BOND. Maybe I was mistaken but I thought I heard comments that there were all these dollars that were readily available from increasing IRS compliance. Did I not hear that in discussions of the budget? Am I mistaken that there was a claim that we really can get significantly more dollars?

Mr. DOLAN. I think there are a lot of commentators out there as to how big or how little this gap is. We have a product that is due, that we will share with this committee in the late summer, which will be our latest, best effort to use our statistical processes to project that foreign tax gap. That will be our best effort at measuring what is out there.

Senator BOND. I am not interested in commentators, but have there been explicit claims by the administration representatives or leaders as to how much we can gain by these international tax compliance efforts?

Ms. RICHARDSON. I think there may have been but I think in the stimulus package there was a projection of $1 billion over a 4-year period.

Senator BOND. I seem to remember that from somewhere and I was just trying to track that down.

Ms. RICHARDSON. I think that was in the economic stimulus package or the Ways and Means legislative changes package. There was a notion that there was $1 billion over a 4-year period. That is not actually tied to what we're asking for here.

Senator BOND. OK. I was interested.

Ms. RICHARDSON. There have been a number of figures tossed about and some of them have been quite large. I guess we are a little bit chary about being too aggressive in the numbers until we get a look at this study.

Senator BOND. I like to hear the people who are going to have to deliver say what they are going to deliver because that will give us something to work on and we will look forward to hearing them. I understand full well that the actual proceedings may not be the sum of the increased revenues. That is why I would like to see the trend of the tax collections in this area, what you collected through compliance activities and what we can expect to get from your compliance efforts, both directly in compliance and in the growth of overall tax collections. We want that on good quality paper because we will be here I suspect in future years with an opportunity to discuss it with you. So we would like your best estimate. To the average person, putting in $30 million a year for 5 years to generate $50 million total doesn't work out. I am sure that there is better information you can provide us and we will look forward to receiving it.

Ms. RICHARDSON. I might say we are working closely with the Treasury on our compliance efforts and on the initiatives. It is an area that is of importance to us and to them. We hope to give you a full report later in the summer, not just on the tax gap but on what those efforts will be.

Mr. DOLAN. If we could plant just another thought with the committee. One of the things we do know is that from some of the investments we have already made is we are now able to break down the foreign-controlled corporation phenomena. We used to talk about it in one sort of amorphous number and we have now gotten several industry breaks so we can watch phenomena quite different from one industry to another in the foreign-controlled corporations. Also in the U.S.-controlled corporations, there are a significant number of issues around the treatment of outbound as well as inbound transactions. When we come to you with a product later in the summer on information on the tax gap we also might want to give you a little bit of the internal management information system that has been developed around what is really going on both in foreign controlled corporations and in U.S.-controlled corporations because there are some pretty significant parallels.

FISCAL YEAR 1991 COMPLIANCE INITIATIVES

Mr. KINGHORN. Senator Bond, if I may. Just on the bigger picture, I want to leave the impression with you that the last really large compliance initiative we had was 3 years ago, 1991. Albeit,

we have not yet delivered everything we promised on the resource piece of that, we have done extremely well on the management side. To date, we have delivered about $1.3 billion for a cost to date of about $500 million for the people involved in that. That is a 2-to-1 payoff already. We do a quarterly tracking report we can share with you that gives you the math there. We still think we're going to end up with most of what we promised, which is $5 billion over the 5 years. But we already have money in hand of $1.3 billion at a cost of around $500 million, so that's a 2-to-1.

Senator BOND. And that's direct compliance activities, not the overall?

Mr. KINGHORN. That's the broader, right.

Senator BOND. Let me ask just one more question, if you will indulge me, Mr. Chairman. At the end of fiscal year 1992, the IRS reported accounts receivable of approximately $111 billion. The report indicated that nearly three-quarters of that amount cannot be collected due to inaccurate records or because taxpayers don't actually owe the money, can't be located, or taxpayer can't pay. That means we're looking only at somewhere around $30 billion potentially collectible.

How did the records get in such condition? Is the collection process and staff allocation adequate? Do we need to change something so we don't have such a buildup in accounts receivable?

Mr. DOLAN. Can we answer this in sort of a tag team fashion. Let me speak to a piece of it and then ask Phil to pick it up. One of the things we do, and we may not help ourselves, is talk about accounts receivable and people hear that in the same context as a businessman running a business. We have got a lot of stuff in our accounts receivable that a businessman would not carry or count or talk about or score as his or her accounts receivable. We have, for example, as a good chunk of our accounts receivable all the accrued interest and penalties that go with the original underlying debt. That has a huge effect on that number, whether it is the $110 or the $70 million or something else.

Until recently we also had included in our accounts receivable a phenomenon called a 100-percent penalty, which meant that when there was an underlying trust fund liability and maybe three or four responsible parties that might have had some part in that corporate or business entity that owed the money, our process said that we would set up that full amount due on all three or four of the principals. So it was carried as a multiplier and it was more a question of the way we assigned work than it was of anybody's attempt to reflect it as a conventional account receivable.

Now what has happened recently in terms of the GAO involvement in the auditing of our financial statements is they have said if you drew back and applied the litmus test that business would apply as to what is the collectible good account receivable, the accruals, the penalties and interest would not be on your balance sheet as accounts receivable. That's when you get yourself to this $30 million. It doesn't mean that we won't go after and shouldn't collect the accruals, the penalties and interest, but it means that there was a material difference in the way that people thought we should have been thinking about accounts receivable and what we

were carrying in that huge chunk of dollars called accounts receivable.

Phil, you may want to take some of this.

Mr. BRAND. The other point to make there of course is that the statute is a 10-year statute and within that period you can't write out of that figure such things as bankruptcies where the corporation has been dissolved, they owe the money, but there is no way you can collect it. That stays on the books and never comes out. You have insolvent businesses in similar types of situations where we have been out there to collect, the business is no longer there, there are no assets left. That will ride until that 10-year period is up. There is always some bit of washing going on in terms of the dollars that we believe are owed because a return was filed erroneously or we made a mistake in the posting process. So you really move on down from that particular area where we have contacted a number of these people, did not collect for various reasons, and you get to the figure that Mike alluded to.

Senator BOND. It sounds like there ought to be a recharacterization of that number and——

Mr. DOLAN. Yes, sir; and the other thing that I think helps in that is that number represents less than 2 percent of the revenues that do flow to us. The other thing that I think puts it in perspective is we collect 75 percent of current accounts receivable. So what you have got is a buildup, you have some multipliers, you have some residue, some junk that really does obviate what that number should mean to a businessman.

Mr. KINGHORN. The main point you take away from this is the number that we all should be concerned with, is that number of around $30 million. We do some of it to ourselves. We have a new program—offers-in-compromise, for instance, where we are trying to get people in the system to pay their bills, we put that in the category called currently not collectible. That is not something a businessman would do. You have got an agreement with someone; it is not a problem, it is a success. So there is a lot of that in the system.

Senator BOND. OK. Mr. Chairman, I appreciate your indulgence. I'll save some of these questions for the record.

CID LINE AUTHORITY

Senator DECONCINI. Thank you, Senator Bond. I have a lot of questions too I am going to submit. I am just going to touch on one, and that is with regard to the Criminal Investigative Division. Commissioner, we have kind of had a running battle here with the IRS for some time. As you probably are aware, many other law enforcement agencies—Customs, Secret Service, Alcohol, Tobacco and Firearms, DEA, and the FBI—have direct line authority to an assistant director of the agency who is responsible for the enforcement matters. This assures that policy investigation resources and other matters are handled by enforcement experts and not nonlaw enforcement officials. In the IRS it doesn't work that way. Quite frankly, from what I can determine, you have some of the most outstanding criminal investigators of any enforcement agency. I have talked to you a little bit about this and you may be a little new to the subject matter. Mr. Dolan and I have had many, many dis-

cussions on it without coming to a satisfactory conclusion of either side convincing the other. But I know they are very sincere on IRS' position; I understand, I just don't agree with it.

Last year we authorized the creation of a commission or a committee to review this. I just now got the names of those people. I just would like to have your assurance that from your knowledge of this, although this is conducted by the Department of the Treasury, that it is going to be an objective review. That is all I am asking for. If it comes back in objective review that it doesn't make sense here, fine. I will be surprised but I can accept that. What bothers me is that I have felt in the last reviews that have been done that it hasn't been objective because IRS has had a heavy hand in there in getting their position across, which is only natural. I don't criticize them for doing that, you want it to come out the way you want it to. I didn't appoint any of these people. I did come up with the idea of trying to get somebody to look at it because of the sincerity of Mr. Dolan and your predecessor and others within the IRS making the very professional objections to changing this.

But I would like for you to look at it as objectively as you can and talk to other law enforcement people to review this. I think it would make a difference in the enforcement of the criminal side of the Internal Revenue Service. I could be dead wrong and I can accept an objective review of it. I don't know if you have any comments or not.

Ms. RICHARDSON. First, I would like to say I fully concur in your assessment of our Criminal Investigation Division people. I think they are probably the finest law enforcement people in the world. We have assured them repeatedly that we're going to give them the resources that they need to do their job.

In terms of the study, I think you probably know Ron Noble or have had a chance to meet with him. I think it is fair to say that he is very well versed in law enforcement issues and I think he is an independent thinker. We certainly get along very well. He has met with all of our enforcement people. But I think you can be assured that this study will be run in a very professional and independent fashion. I have talked to him and I think we're in sync with how to proceed but I don't think he feels that we're going to try to run the show. One-third of the people on it are IRS people and two-thirds are from outside of IRS.

Senator DECONCINI. One thing that bothers me is that we're supposed to have the results July 1. Obviously, that is not going to come about.

Ms. RICHARDSON. I know you are. We have a meeting scheduled on June 17. As I mentioned to Patty Lynch before the hearing today, we are going to do our best to meet your deadline. One of the problems we have had is that in addition to a number of these people not being confirmed until just recently, Ron has been distracted with a few other things, as you probably know. So scheduling a date to get together for a meeting has been a bit difficult.

Most of the people on the list are familiar with the issues and I think are familiar with what your concerns are. So I don't think it is a question of people having to spend another year thinking

about the issues. I am optimistic that if we can't meet your deadline of July 6, we will be back to you very quickly.

Senator DECONCINI. I can see how that would be a little difficult to do.

Ms. RICHARDSON. We still have one person, George Muños who is assistant secretary for management, who has not been confirmed but we decided we should go ahead in any event.

Mr. KINGHORN. Mr. Chairman, one of the important elements in that was the resource issue. We have already been working and with Don's assistance on October 1 will have a plan manager in place so the CI Assistant Commissioner will have complete control of the money all the way down to the people in the field.

Senator DECONCINI. Is that right? That's good.

Mr. KINGHORN. So we have moved ahead on that piece.

Senator DECONCINI. That means all the assets too?

Mr. KINGHORN. All the assets.

Senator DECONCINI. Communications and equipment and transportation?

Mr. KINGHORN. All of that.

Mr. DOLAN. We have taken a series of steps, notwithstanding our professional disagreement, but there is a whole series of issues that put more of the enforcement decisionmaking in that CI process and those have been consummated and are not awaiting the study.

Senator DECONCINI. I'm glad to hear that.

Ms. RICHARDSON. Is there anything, Don, you would like to add to that?

Mr. VOGEL. No; other than the fact that what has been referenced here as far as centralizing the budget under me and other asset issues that were brought up, we have had absolutely full support from the very top levels of the organization to make sure we get this straightened out and got it right. It is in place and is working well.

Senator DECONCINI. Thank you very much.

Ms. RICHARDSON. We look forward to reporting back to you on that.

Senator DECONCINI. You did a very good job in your first outing here. We look forward to having you again.

Ms. RICHARDSON. Thank you very much. We appreciate your support.

SUBMITTED QUESTIONS

Senator DECONCINI. Thank you very much for your testimony this morning. We will submit additional questions to be answered for the record.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR DeCONCINI

Tax Systems Modernization

SENATOR DECONCINI: GAO, in testimony before the House Ways and Means Committee, stated that while it is laudable to attempt to synchronize deployment of four interim TSM projects in fiscal year 1994, IRS has not yet confirmed which systems should be deployed and when, has not identified the sites where the systems will be deployed, and has not performed any risk assessments. GAO feels it is highly likely that delays in the deployment of these systems will continue and therefore, you may not be able to obligate $82.8 million of the request in fiscal year 1994. Would you care to comment on the GAO findings?

COMMISSIONER RICHARDSON: We will have made all decisions related to the deployment of these projects, including which systems will be deployed, when, and location by the end of this fiscal year. Development of these systems will be frozen with a portion of their resources redirected to developing Integrated Case Processing (ICP). These frozen initiatives will be rolled out to locations beyond their planned prototype locations only if the business case justifies it and sufficient resources exist. Any future roll-outs will occur at the same locations to minimize the cost of software development, telecommunications, facilities, and site support. Using the ICP approach, capabilities can be delivered to the end user earlier than originally projected at a lower total cost. All projects will be implemented using universal workstations which will allow authorized user to access all current taxpayer information and will support future TSM applications.

Risk assessments will be conducted for each of the four projects before they are implemented. We do not feel that obligating the funds in FY 1994 will pose a problem. Equipment we plan to purchase with these funds will be acquired through the existing Treasury Multi-User Acquisition Contract (TMAC).

SENATOR DECONCINI: If GAO is accurate, then why should the Congress appropriate these funds when competition is very stiff for the limited dollars which will be available next year?

COMMISSIONER RICHARDSON: Mr. Chairman, not only does the Internal Revenue Service disagree with GAO's assessment of our Integrated Case Processing concept, but we have also heard from the National Research Council and the Integration Support Contractor (TRW) who both fully support our plans. The Integrated Case Processing system will enable employees to increase their productivity, will reduce errors, and will decrease the time needed to complete cases or respond to inquiries. In FY 1994, funding for this initiative will allow us to purchase universal workstations and begin installation in the

service centers and field offices. This is the first step in moving toward an integrated system supporting both taxpayer service and compliance functions.

In addition, funding for this initiative will be used to develop the Compliance Research and Information System which is critical to improving voluntary compliance and reducing the tax gap. This system will provide the capability to stratify data and to provide analyses that will allow us to identify causes of noncompliance.

SENATOR DECONCINI: As you know, the House Subcommittee has recommended an $85 million reduction in your Information Systems budget request for fiscal year 1994. In your assessment, what will be the impact of this reduction?

COMMISSIONER RICHARDSON: A reduction of this magnitude would have a dramatic impact on the future of the Modernization program and our efforts to reinvent tax administration.

FY 1994 is a pivotal year for TSM. This reduction would obviously threaten our ability to achieve our FY 1994 goals for TSM. Significant investments are planned to acquire the major computer platforms that will support long-term TSM applications. Other investments in workstations and telecommunications equipment will allow us to begin roll out of case processing applications that will achieve significant early productivity savings and make TSM a reality to a vast number of IRS personnel and taxpayers. Each year that TSM is delayed results in a **loss of $500 to $700 million** in annual productivity gains.

We have initiated a comprehensive analysis to ensure that the reduction is taken in a way that does not totally undermine the integrity of the Modernization program. Given the complexity of the TSM program, we have not yet completed our analysis. However, some of the impacts are:

- Elimination of funding for Universal Wiring which is necessary to connect TSM workstations to the telecommunications network. Access to taxpayer data will continue to be limited.

- Inability to implement automated case system in remaining 30 percent of Counsel offices will delay case resolutions, causing taxpayers to expend more time and costs for representation. Attorney productivity facilitated by new work processes will not be realized in 1995.

- Suspension of enhanced research capabilities to identify and target taxpayer non-compliance would impact our ability to improve voluntary compliance and reduce the tax gap. Automated examination capabilities which improve the timeliness and quality of audits will not be installed as expected in 7 districts and a service center. Increased collections facilitated by more productive case

work and inventory management is lost. The inability to roll out technology in support of Criminal Investigation will impact effectiveness of our agents. Reduced funding postpones implementation of correspondence control capabilities by one year and therefore, delays in responding to taxpayers continue.

Compliance Initiatives

SENATOR DECONCINI: For fiscal year 1994, your budget also includes $187 million for the 4th year implementation of the 1991 compliance initiative which was expected to generate $9.8 billion over a five year period. I understand that IRS now expects that revenue to exceed the original target by nearly $2 billion. However, this initiative was a combination of both resource and management activities. Can you tell me whether or not the resource portion of this initiative has raised the amount of revenue that IRS estimates back in fiscal year 1991? If not, can you tell what the difference is and why?

COMMISSIONER RICHARDSON: The five-year revenue goal for the FY 1991 resource initiatives is approximately $6.2 billion. Through March, 1993, the IRS has collected about $1.3 billion. Projections indicate that we will collect $5.2 billion for the five-year period, about 15 percent below expectations. Reasons for this shortfall include improved compliance, reduced hiring, more reliable historical data, etc.

SENATOR DECONCINI: Turning back to the $150 million '94 compliance initiative, your budget includes productivity savings of $31 million and 737 FTEs associated with certain tax system modernization activities. GAO states, and I agree, that if the productivity savings are not realized then IRS could find itself not fully implementing the compliance initiatives and diverting resources to cover costs of labor. Has IRS given any thought to what would happen if the productivity savings are not realized and the effect on the proposed compliance initiatives?

COMMISSIONER RICHARDSON: If the productivity savings are not realized, the Service would be forced to consider absorbing corresponding amounts from alternative sources, since the resources would have already been deleted from the Budget. Since the Compliance Initiatives are program increases, they could be the starting point for potential reductions. However, the Service could opt to preserve the Compliance Initiatives and reduce the base instead. If the Compliance Initiatives were reduced, the Service would lose approximately $1 billion in revenue over a five year period. The corresponding revenue loss for a base reduction would depend on where in the base we took the reduction.

SENATOR DECONCINI: With reference to your collection of delinquent accounts initiative, you are requesting an additional $49.5 million and 777 FTEs for reducing the

backlog of accounts receivable. A large portion of this initiative calls for additional revenue officers to go to the field to make face-to-face contact with delinquent taxpayers. GAO, having reviewed your collection activities, states that more emphasis should be placed in early telephone contacts which are far more economical and effective in collecting delinquent taxes. It is my understanding that you project average revenues of $377,000 for each FTE for call sites but only $89,000 for each additional revenue officer. GAO makes the case that in the private sector, they rely more heavily on early telephone contacts to resolve delinquencies and that this can be accomplished without additional staffing. If this is the case, why wouldn't IRS be placing more of the limited resources in the call sites which are cheaper instead of against revenue officers? Is GAO correct and if so, what would be your reaction if the Committee denied the requested increases in FTEs for revenue officers and directed IRS to redirect resources from the field to the call sites?

COMMISSIONER RICHARDSON: We agree with GAO's contention that early telephone contact may improve collection efficiency. Plans are already underway to make contact on some cases following first or second notice. We do plan to place as much additional staff at Automated Collection System (ACS) sites as they can accommodate. There are limitations related to space, computer terminal, and computer storage capacity. We are currently working on a systems change to allow ACS workers at one site to work inventory at another. With this change, sites with excess space and computer capacity could increase staffing to accommodate excess inventory at other sites.

Although ACS does need additional staff, ACS staffing increases will not produce an endless stream of revenue for the following reasons:

1. The work is finite. ACS sites are already working all current collection cases. We do, however, believe that additional staff will allow telephone contact earlier in the collection process and generate additional revenue.

2. With the first crack at collecting (after mail notices), ACS is already generating revenue from the cases which are the easiest to collect. Adding additional staff will not make collection work any easier, but would facilitate faster access to delinquent taxpayers and thereby increase the likelihood of collection. There are already indications that ACS may be reaching the point of diminishing returns. ACS collections for FY 1993 through May, 1993 are down from the similar period in FY 1992. We believe this to be partially attributable to such program

changes as the increased availability of installment agreements in notice status.

3. ACS is unable to collect or close 42 percent of its caseload, including almost 60 percent of the BMF (Business Master File) cases. For every 100 cases worked by ACS, 42 will require further processing by CFf (Collection Field function). ACS sites have proven most effective in collecting revenue from low to mid-dollar Individual Master File (IMF) cases. They have proven relatively ineffective in collecting from high-dollar IMF and BMF cases. High-dollar IMF and the BMF cases require the collection tools of CFf, including face-to-face taxpayer contact. Stripping staff away from CFf to fund ACS may send the message to the country that the IRS is unwilling to collect overdue taxes from businesses and high-income individuals, but will pursue low to mid-income individuals.

4. Since the implementation of ACS, CFf inventory has increased 225 percent (from FY 1984 to FY 1992) to 4.4 million cases. CFf needs more staffing to reduce this inventory to more reasonable levels.

5. Our past statistics may have overstated the efficiency of ACS relative to CFf. We neglected to include the 30 Service Center FTE which support each 100 ACS FTE by entering the appropriate data and transactions into IRS computer systems and generating other necessary paperwork. Further, we included dollars which were generated from mail notices in ACS collections. For FY 1991, we estimated that ACS collections were about $ 1.5 million per FTE versus about $331,000 per FTE for CFf, a ratio of 4.5 to 1. Incorporating the factors above, and using actual FY 1992 data, we estimate average dollars per FTE as $1,071,000 for ACS, and $370,000 for CFf. That's about 2.9 to 1. The FY 1992 calculation includes all Collection field staff with the exception of 2,325 service center FTE. We are unable to verify how GAO arrived at the $377,000 and $89,000 figures. We believe that they may have been derived from the first year of an initiative when trainee production is low and when the opportunity cost of experienced employees, acting as trainers and coaches rather than revenue producers, is high.

SENATOR DECONCINI: What is the current total for accounts receivable and how much of this amount does IRS believe is collectible?

COMMISSIONER RICHARDSON: As of September 30, 1992, accounts receivable were $70.9 billion. The IRS believes that about $28 billion is collectible over the statutory period of time available on these accounts. GAO believes that this amount is an overstatement (GAO/AFMD-93-42). IRS is currently analyzing a sample of accounts receivable to determine if a change in our estimate of collectibles is in order.

SENATOR DECONCINI: What impact will the proposed compliance initiatives have on reducing the accounts receivables?

COMMISSIONER RICHARDSON: The proposed compliance initiatives will result in both an increase and reduction in the Accounts Receivable. Some initiatives, such as International Tax Compliance and Nonfilers, could increase Accounts Receivable by identifying previously undisclosed tax liabilities. Other compliance initiatives, such as Privatized Debt Collection and Accounts Receivable, would target the existing inventory of delinquent tax dollars owed, thereby decreasing Accounts Receivable.

Electronic Filing

SENATOR DECONCINI: Commissioner, every year IRS touts the use of electronic filing as a way to reduce overhead and save money in returns processing. My concern all along has been that this is a service IRS should offer the public free of charge or at a nominal cost through its district offices. However, IRS has always taken the position that this would discourage practitioners for offering this service. Last year my staff discussed this matter with H&R Block, one of the largest private tax preparing services in the country. H&R Block stated that they would support IRS providing this Service as it would reduce the number of "fly-by-night" preparers who have been doing this filing for fraudulent taxpayers. Now I see that fraudulent electronic filing has become quite a problem. GAO states that in 1992, 12,725 returns totalling $33.6 million were fraudulently field and that IRS issued refunds in 1/3 of these cases before it discovered the fraudulent activity. And, in your fiscal year 1994 budget, you are requesting $5,000,000 and 81 FTEs for investigating fraudulently filed electronic returns. Commissioner, I don't know if you have had a chance to look at this issue during your short tenure, but if you have, can you tell me why, when the largest independent tax preparer is saying that it would encourage IRS to provide this Service to the public, the IRS is reluctant to do so?

COMMISSIONER RICHARDSON: We have been looking at our ability to provide this service directly to the public. We tested this concept in 1992 on a very limited basis, and we expanded the number of test sites this year. Currently, we are evaluating the results of these tests and determining the feasibility of expanding this service

to all IRS sites. If all goes well, we hope to open additional sites in 1994 and 1995, with nationwide service anticipated by 1996. However, our costs per site are high, including equipment, software, and additional staffing.

SENATOR DECONCINI: GAO states that IRS should improve the criteria its computers use to screen electronic returns for matching wage information received from employers against the wage information on electronic returns. GAO states that this would reduce the number of fraudulent filings and refunds. Why isn't this being done?

COMMISSIONER RICHARDSON: Timing is the major impediment. Since employers are not required to provide wage information to the IRS until the middle of the filing season, the Service does not match employer wage information with wage information on returns at the time returns are received and processed. Instead, wage information matching is performed after returns have been processed. Through our modernization efforts, we are working to move the wage matching activity to the front end of the process.

We are working with the Social Security Administration to streamline processes associated with the transfer of wage withholding information from that agency to the IRS. This joint effort is a long term process. As an interim measure, we have adopted an aggressive strategy to screen for fraudulent filings and refunds through additional computer checks. For instance, in the 1994 filing season, we plan to incorporate a check of the Employer Identification Number from the wage statement provided with the electronic return. If the Employer Identification Number is either incomplete or missing, the related record will be rejected. Moreover, we are planning to validate the Employer Identification Number to determine the legitimacy of the wage document and isolate those returns with suspect information for further investigation. The Service will also review returns which demonstrate other suspicious characteristics. Finally, we have initiated development of a system which uses artificial intelligence to detect fraudulent claims in the screening process.

SENATOR DECONCINI: How much money is spent every year by IRS on electronic filing?

COMMISSIONER RICHARDSON: In FY 1992, the IRS received and processed 11 million electronically filed tax returns. Approximately $45 million was spent in FY 1992 on staffing and equipment costs. This amount does not include any prior year equipment investment costs. The approximate FY 1992 Service Center cost to investigate and detect fraudulently filed ELF returns was $7 million.

Audit Rates

SENATOR DECONCINI: Even with your enhanced compliance activities in fiscal year 1994, I see that your audit coverage rate overall is still projected to be only .95 percent or .04 percent higher than that in fiscal year 1993. With all of the money that IRS is spending to educate the public and increase compliance, wouldn't it make more sense to put more money and staff into audits because the fear of an IRS audit could improve compliance?

COMMISSIONER RICHARDSON: In the past, our activities were geared toward correcting a particular return or resolving a particular issue or account -- often through the use of enforcement sanctions -- on the assumption that these actions make the taxpayer more compliant over the long term. We also assumed that these enforcement actions would indirectly and positively affect compliance in general. However, our enforcement activities have not kept pace with the growth in the number of returns filed and the increased complexity of those returns. Moreover, our research efforts have provided little objective information regarding the causes of non-compliance.

The Service's basic approach to tax administration has not changed in four decades. During that time, society, the economy, and the statues we administer have undergone many changes. The tax law is now so complex that it affects taxpayers' ability to comply and often affects their willingness to comply, as well. Over this same time period, the cost of our enforcement resources has also increased dramatically, Today, the cost of one-on-one enforcement is virtually prohibitive. For the IRS to increase audit coverage from the current one percent rate to two percent would require a significant increase in the number of revenue agents and tax auditors. The cost of such a staffing increase would run in the billions of dollars. In today's world, there are too many returns, too many complex laws, and too few enforcement resources to permit us to continue "business as usual." We simply must modify our approach to tax administration, using non-traditional approaches in concert with our enforcement resources (which will not be cut as a result of this change) to better address compliance concerns.

SENATOR DECONCINI: Can you tell us what your audit coverage rates are projected to be in fiscal year 1994 for $100,000 in income and higher, and for corporations?

COMMISSIONER RICHARDSON: In FY 1994, we project an audit coverage rate of 5.23 percent for individuals earning over $100,000. The projected corporate coverage rate is 3.32 percent.

International Tax Compliance

SENATOR DECONCINI: For fiscal year 1994, you are requesting an increase of $30.4 million and 174 FTEs for

an international tax compliance initiative designed to address transfer pricing agreements. Even with this increase, which I commend the Service for, Commissioner, realistically, what impact will this have on increasing compliance in this area?

COMMISSIONER RICHARDSON: IRS developed the Advance Pricing Agreement (APA) process with the issuance of Revenue Procedure
91-22 in March 1991. An APA is a prospective agreement between the taxpayer and the Service that a particular transfer pricing method when applied to the taxpayer's operations will determine compliance with the arm's length standard of Internal Revenue Code (IRC) section 482. If a treaty country is involved, IRS will generally seek a mutual agreement. This process is designed to arrive at an understanding with the IRS on three basic issues: 1) the factual nature of the intercompany transactions to which the APA applies, 2) an appropriate transfer pricing methodology to apply to those transactions, and 3) the expected arm's length range of results from applying the transfer pricing methodology to the transactions.

Currently, the Service has approximately 45 taxpayers in the APA program, at various stages of development, involving operations in 16 foreign countries. Fifteen of these requests are substantially complete. Further, 36 additional taxpayers are actively considering participation in the program, and have held very preliminary discussions with IRS.

Transfer pricing is a very time consuming and difficult area and may include protracted examination, appeals, competent authority proceedings, and litigations. The review of a transfer pricing issue is a drain on the resources of both the Service and the taxpayer.

APAs are unique in that the IRS' approach is multi-functional, including examination, appeals, counsel, and, where appropriate, competent authority. This combining of resources allows a review of a proposed APA within a relatively short period of time.

This review is facilitated by the taxpayer who enters the process in a non-adversarial role. The taxpayer acts as a facilitator in the determination of an appropriate arm's length price. Although the APA process can not entirely eliminate the conflicting interest of the IRS and the taxpayer, our experience is that taxpayers are very cooperative, the discussions are more fruitful, and access to information is more timely than that experienced in a normal examination environment.

Specifically, the IRS can expect a positive impact on compliance in the following areas:

o The amount of resources required to review a proposed APA will be substantially less than those required to

review the taxpayer's policy in the normal examination process.

o Where an APA exists, the necessary IRS resources required to review a transfer pricing policy will be reduced.

o An APA can serve as a vehicle to resolve audit issues currently in examination or appeals.

o An APA can serve as a learning tool for a revenue agent on the pricing policy of certain industries. This experience can be used by the IRS to expedite other examinations.

Taxpayer Assistance

SENATOR DECONCINI: For fiscal year 1994 you are requesting an increase of $17.3 million and a reduction of 67 FTEs in taxpayer service activities. While I recognize that the automated call routing equipment at 9 of the 32 toll-free telephone sites should increase the productivity of tax assistors, I don't understand how you can claim that 880,000 more calls will be answered with a reduction in staff. In 1992, 33 percent of the taxpayers seeking assistance were able to get through to assistors. In 1993, that percentage has declined to 24 percent. However, it is my understanding that accuracy is up significantly. With new tax law changes expected during the current year, how does IRS expect its taxpayer assistance staff to respond to an increased number of calls when it is suffering a staff reduction of 67 FTEs?

COMMISSIONER RICHARDSON: We expect to be able to answer the additional calls by increasing productivity in the telephone activity, mainly through the use of automated call routing equipment, interactive systems to further automate responses, and by reducing the percentage of total resources spent in overhead activities. In addition to providing updated training to our front-line assistors, we will provide taxpayer information materials for release to local media. These materials are developed nationally for distribution to District public affairs officers and national media.

We follow legislative proposals very closely, but there is uncertainty associated with any bill. Our budget formulation process accounts for current expectations, since we are prohibited from requesting contingent funding. We must wait until the bills are passed before requesting supplemental funding.

SENATOR DECONCINI: What level of taxpayer service is IRS providing this year and how does that compare to the estimate for fiscal year 1994?

COMMISSIONER RICHARDSON: As of mid-June, 1993, we have answered 1.2 million more calls than we scheduled.

However, with demand materializing substantially higher than our projections, even with our increase in calls answered, we are currently delivering 58.9 percent level of service.

We are currently projecting a level of service of 58.3 percent for FY 1994, which equates to the same number of calls answered on a fiscal year basis as we are currently achieving.

SENATOR DECONCINI: Has IRS thought about contracting out taxpayer services? If not, why not?

COMMISSIONER RICHARDSON: We do not have a formal analysis of this concept, but there are many barriers associated with contracting out taxpayer service. In order to provide accounts service that would include payment resolution, tax adjustments, penalty abatement requests, etc., any private vendor would need access to our computer tax data. The on-line service that we endeavor to provide would require security limitations on the vendor that would be difficult to provide for in a contract. In addition, certain sensitive issues are also handled on our telephone system. These issues include fraud informant reports and civil enforcement issues.

While we may be able to contract out selected services, it becomes more confusing to the public to list separate telephone numbers or contact points for specialized services. The future vision of the IRS is to provide One-Stop Service to the public, and we do not believe that contracting out taxpayer service leads us in that direction.

Motor Fuel Excise Tax Evasion

SENATOR DECONCINI: For fiscal year 1994 you are requesting an increase of $2.6 million and 25 FTEs to shore up compliance in the motor fuel excise tax area by undertaking criminal investigations. It was my understanding that these investigations were to be paid out of the Federal Highway Trust Fund under a reimbursable agreement with IRS. If this is the case, why is an increase in funds being requested in your budget?

COMMISSIONER RICHARDSON: The Intermodal Surface Transportation
Efficiency Act of 1991 (ISTEA), Section 1040, authorizes the use of Highway Trust Revenues for purposes of excise tax enforcement. This legislation provides $5 million each year in contract authority in FY 1991-1997. These funds are divided between the IRS ($2 million per year) and the state taxing authorities ($3 million per year). Of the $2 million provided to the IRS, Examination receives approximately $1.4 million annually. Criminal Investigation (CI) receives approximately $600,000 annually.

ISTEA also authorizes an additional $2.5 million per year from the General Fund through FY 1997 for highway use tax evasion projects. However, to date, these funds have not been appropriated.

In short, the funds which we receive annually from the Joint Federal/State Motor Fuel Excise Tax Compliance project is limited to $600,000 per year. We use these funds to partially fund undercover operations, supplement on-going criminal investigations, and conduct information-gathering activities.

In 1990, we committed 31 special agent FTE to motor fuel excise tax enforcement efforts. This has risen dramatically; in FY 1991 and 1992, we committed 45 and 61 FTE respectively. An estimated 80 special agent FTEs will be devoted in FY 1993. The requested resources are needed to reinforce the successes which have been achieved in the motor fuel enforcement area over the past several years. For instance, during the period March-May 1993, 46 individuals were indicted in Pennsylvania, New York, and New Jersey. These individuals were all reputed members of organized crime, who were responsible for the perpetration of three large evasion schemes which stole $109 million in excise tax revenue.

SENATOR DECONCINI: Can you tell us why this tax is collected at the terminal rack instead of at the refinery?

COMMISSIONER RICHARDSON: Effective January 1, 1988 changes in Federal Laws and Regulations governing the taxation of gasoline moved the point of taxation from the wholesale distribution level to the terminal rack. Similarly, effective April 1, 1988, the point of taxation on diesel fuel was raised from the retail level to the wholesale distribution level.

When the above legislation was proposed, it was thought that it would be desirable to raise the point of taxation on gasoline even higher up the distribution chain, to the refinery. Although this would further reduce the opportunities to steal gasoline excise tax revenue, it would impose substantial hardship on the industry because it would increase the carrying costs of the product. The oil industry's concerns over these increased carrying costs could not be ameliorated. Therefore, as an interim solution, the point of taxation on gasoline was moved to the terminal rack.

Currently, diesel fuel is taxed at the wholesale distribution level. It is currently being proposed to move the point of taxation to the terminal rack.

In conclusion, the movement of the point of taxation on gasoline from the wholesale distributor level to the terminal rack has reduced the number of taxpayers who can purchase gasoline tax free from approximately 30,000 to 1,200. Since 1988, gasoline evasion schemes have

declined. Unfortunately, diesel fuel evasion schemes have increased. Nevertheless, because gasoline excise tax revenues are $13.8 billion of the $17.7 billion total motor fuel excise tax revenues collected (FY 1991), the 1988 legislative changes did produce positive results.

Personnel Reductions

SENATOR DECONCINI: The President's Executive Order Numbered 12839 mandates a 1 percent reduction in personnel in '93 and a 1 1/2 percent reduction in fiscal year 1994 for all Executive Branch agencies. The IRS reduction totals 1,186 for fiscal year 1993 and 722 for fiscal year 1994 due to other productivity savings. For the record, can you identify where the reductions will be taken in fiscal year 1993?

COMMISSIONER RICHARDSON: In accordance with Executive Order 12839, the Service implemented a one percent reduction to total FY 1993 staffing levels (measured on a full-time equivalent (FTE) basis). Per the Executive Order, the Service will achieve this reduction through attrition. Since all activities will experience some level of attrition in FY 1993, the Service will implement the reduction across-the-board, in all activities.

SENATOR DECONCINI: The President's Executive Order also mandates that at least 10 percent of these reductions be taken in grades 14 and higher. Can you please demonstrate that you are in compliance with this portion of the President's Executive Order?

COMMISSIONER RICHARDSON: From FY 1993 through FY 1995, the Service's total staffing reduction to Senior Executive Service, GM/GS-15, and GM/GS-14 employees is 469. The Service has established reduction targets of 119, 178, and 172 for FY 1993, FY 1994, and FY 1995 respectively, which put us on course towards compliance with Executive Order 12839 by the end of FY 1995.

SENATOR DECONCINI: Commissioner, one of the most pressing concerns that I have had with the IRS over the years is that it appears to be top-heavy. The one good outcome I see from the President's Executive Order on personnel reductions is that it forces agencies like IRS to take a good hard look at themselves and cut unnecessary staff. The concern I have, however, is that it appears that IRS may be applying the personnel reductions across-the-board instead of selecting positions in headquarters and regional offices that you could do without. I frankly believe that IRS should try to scale back on its headquarters and regional office personnel instead of taking the cuts in field positions. Have you given any though to reducing staff in the National Office and the Regional Offices? If so, what are your plans?

COMMISSIONER RICHARDSON: Even before the President's Executive Order on Personnel Reduction, the IRS had been studying ways to reduce overhead and to increase front-line compliance and taxpayer services efforts. As a result of our studies and outside any impact produced by the Executive Order, we are redeploying about 2000 positions from National Office and the Regional Offices to front-line compliance and taxpayer service positions in the District Offices. We are also considering the closure of two of our seven Regional Offices.

SENATOR DECONCINI: Can you tell me about your plans in this area and tell me what you intend to do to reduce the potential political opposition?

COMMISSIONER RICHARDSON: We believe the Service is in a unique position, particularly during this time of government restructuring, to make a compelling case for change. Tax Systems Modernization (TSM) provides us with the opportunity to change how and where we do business. In addition to redeploying staff to the front line and possibly reducing the number of Regional and District Offices, the Service has other change initiatives underway.

One of our business change study recommendations is to integrate our customer service oriented activities. Today, we provide services from three distinct types of offices--automated collection call sites, taxpayer service toll-free sites, and Service Centers, where paper-intensive correspondence activities take place. We believe it makes good business sense to conduct these activities in a much more integrated fashion. TSM will provide this capability with potentially fewer employees at a reduced number of sites. While the technological changes which will make all of this possible are several years away, we are preparing for these changes now. We will be making decisions with regard to customer service sites later this year and will prepare detailed plans for redeploying impacted employees. The ten existing Service Centers--where the largest number of customer service oriented IRS employees are concentrated--will be among the selected customer service sites.

Because the Service must have a significant presence throughout the United States, the net effect of our efforts in any given geographical location will be minimal. We are undertaking this effort with the belief that better service to our customers is paramount. We also believe it is very important to provide our employees with the opportunity to continue their service to the American taxpayers if they desire. Our plans for reinventing the IRS will accommodate both of these interests and will build a very compelling case for the change we are undertaking.

We realize that many questions and issues will arise out of our proposals. It is our intent to deal with

potential political opposition by being as candid and responsive as possible to all queries and issues associated with the our proposed reorganization.

Senior Executive Service Positions

SENATOR DECONCINI: Commissioner, I have been very concerned that the Treasury bureaus have not been doing everything they can to ensure the SES personnel include women and minorities. Can you tell me how many SES positions are currently allocated to the IRS and how many of these positions are filled by women and minorities?

COMMISSIONER RICHARDSON: 246 positions are currently allocated to IRS (241 Senior Executive Service and 5 Senior Level). Of these, 25 (10.2%) are minorities and 30 (12.2%) are women.

SENATOR DECONCINI: What do you intend to do to see that more is done to recruit minorities and women in the senior executive level positions?

COMMISSIONER RICHARDSON: Over the years, IRS has made a concerted effort to recruit well-qualified women and minorities into the executive ranks. These efforts have shown a significant impact through the Executive Development Program, which is the primary vehicle through which new executives are selected. Of 59 individuals selected into the last three Executive Development classes (1990-92), 12 (20.3%) are minorities; 14 (23.7%) women.

Criminal Investigations Division

SENATOR DECONCINI: In fiscal year 1993, the Congress earmarked a floor of $334,989,000 and 4,756 FTEs for tax fraud investigations. Can you tell me if you plan to achieve this floor?

COMMISSIONER RICHARDSON: In FY 1993, the Criminal Investigation budget activity is planning to realize $340,973,000 and 4,883 FTE, thereby exceeding the FY 1993 Congressional funding and FTE floors.

SENATOR DECONCINI: How much money and FTEs are budgeted for tax fraud investigations in fiscal year 1994?

COMMISSIONER RICHARDSON: The FY 1994 President's Budget includes a request of $360,699,000 and 4,921 FTEs for the Tax Fraud and Financial Investigation budget activity.

QUESTIONS SUBMITTED BY SENATOR KERREY

SENATOR KERREY: You have requested an $186 million increase for tax systems modernization. What is the current anticipated total cost and the year by year spending profile for this program?

COMMISSIONER RICHARDSON: The total life cycle cost of Tax Systems Modernization through the year 2008 is projected to be $23.3 billion dollars. The net cost over that same timeframe is $7.8 billion. At this time, we are formulating our FY 1995 and out year projections based on our new business vision.

SENATOR KERREY: One of the major goals of the Internal Revenue Service is to collect on the billions of dollars owed to the IRS in back taxes. Recently, you announced an initiative to make it easier for delinquent taxpayers to approach the IRS and set up a payment plan or some approach to pay back taxes. What is your current estimate of the amount of unpaid taxes?

COMMISSIONER RICHARDSON: As of September 30, 1992, accounts receivable were $70.9 billion.

SENATOR KERREY: What portion can you reasonably expect to collect and what portion is virtually uncollectible because of defunct companies, dead or missing taxpayers, etc?

COMMISSIONER RICHARDSON: The IRS believes that $28 billion of the $70.9 billion is collectible over the statutory period of time available on these accounts. GAO believes that this amount is an overstatement (GAO/AFMD - 93042). IRS is currently analyzing a sample of accounts receivable to determine if a change to our estimated collectibles is in order.

As of September 30, 1992, accounts worked and judged to be currently not collectible for various reasons were $47.3 billion. The IRS believes that only $1.24 billion of the currently not collectible amount is collectible over the statutory period of time available on these accounts.

SENATOR KERREY: What portion is involved in highly complex tax litigation which may take years to resolve?

COMMISSIONER RICHARDSON: As of September 30, 1992, $1.75 billion was in litigation status.

SENATOR KERREY: What portion do you consider collectible if you had more resources?

COMMISSIONER RICHARDSON: The $28 billion dollar figure represents a snapshot in time. This figure is an estimate of what we believe we will collect from our inventory at

the end of FY 1992. With new cases being generated every day, the inventory is constantly changing. Collection resources are applied to cases with the greatest potential return, whether old or new. As mentioned earlier, the inventory of active TDAs (Taxpayer Delinquent Accounts) has increased 225 percent since FY 1984 to almost 4.5 million cases. What we can collect from cases from prior years is problematic until we can get our burgeoning inventory under control. Part of our Accounts Receivable Strategy is to slow the growth in new receivables to reduce the average age of our receivables. This strategy is grounded in the belief that the younger the debt, the more revenue we are likely to collect.

Based on FY 1992 data, every Collection FTE brings in over $460,000. This figure is based on all of Collection's field staff, including managers, Service Center workers answering taxpayer letters on notices, secretaries, etc. With an increasing inventory, we can obviously make good use of additional Collection staff and generate much additional revenue.

This figure of $460,000 per FTE is based on our current program. We are actively working to change the way we do business in ways that may increase overall tax collection while decreasing the collection of delinquent taxes. For example, one major compliance problem stems from businesses which fail to deposit taxes withheld from their employees' paychecks, using these funds to deal with cash flow problems. A strengthened Federal Tax Deposit (FTD) alert program in Collection is contacting such businesses as early as possible, hoping to avoid the pyramiding tax liabilities, penalties, and interest which drive many businesses to bankruptcy. This approach may improve tax collection and even strengthen the economic health of this country, but it may decrease delinquent collections.

We are also attempting to work tax liabilities earlier. The sooner we contact taxpayers with liabilities, the more likely we are to collect and the more revenue we can generate. Our new policies allow us to actively consider offers-in-compromise and emphasize installment agreements for most liabilities under $10,000. These new policies should generate revenue while decreasing our TDA inventory. Additionally, collecting at the beginning of the collection process will reduce the labor-intensive efforts of the Collection Field function (CFf) to generate revenue at the end of the process.

Our entire Compliance 2000 approach is geared toward educating individuals and businesses, and bringing them into the tax system. If we are successful in improving voluntarily compliance, we will decrease the number of future compliance cases.

The Service can use additional resources to generate additional revenue. , But we can also increase revenue by

working smarter, by changing the way we do business. We can also increase revenue by improving voluntary compliance and collecting monies at the front-end of the tax system as voluntarily paid taxes, rather than at the back-end as delinquent taxes, penalties, and interest. We believe that the resources requested reflect the best balance of resources and revenues.

SENATOR KERREY: Has your invitation to past non-filers had any impact to date?

COMMISSIONER RICHARDSON: Our Nonfiler Initiative began October 1992. Because of our own required start-up time, the time it takes taxpayers to gather their records and prepare returns, the time associated with the development of enforcement cases, and the time it takes for the returns we do secure to post to our master files, it is too soon to judge the effects of this initiative. Over the next two years, we will gather statistics to assess the success of the initiative and to guide us in improving the process.

SENATOR KERREY: To what extent has the IRS been able to increase collections during FY 91 and FY 92 and to what do you attribute this?

COMMISSIONER RICHARDSON: As the chart below shows, total collections have actually dropped from FY 1990. However, collections from Taxpayer Delinquent Accounts (TDA), the portion of accounts receivable responsive to IRS collection efforts, have increased.

Accounts Receivable Collections: FY 1990-1992

Dollars in Thousands

	FY 90	*FY 91*	*FY 92*	*FY 90/92*
Total Collections	$25,463,944	$24,280,628	$24,234,723	----------
Notice Collections [1]	$17,956,475	$16,667,863	$15,932,661	----------
TDA Collections	$7,507,469	$7,612,765	$8,302,062	----------
Total Increase/Decrease		($1,183,316)	($45,905)	($1,229,221)
% Total Increase/Decrease		-4.65%	-0.19%	-4.83%
Total Notice Increase/Decrease		($1,288,612)	($735,202)	($2,023,814)
% Notice Increase/Decrease		-7.18%	-4.41%	-11.27%
Total TDA Increase/Decrease		$105,296	$689,297	$794,593
% TDA Increase/Decrease		1.40%	9.05%	10.58%

[1] Notice collections includes dollars collected from installments agreements.

Collections are divided into two major categories - notice collections (the money which is paid in response to IRS mail notices) and TDA collections (the money generated by the efforts of the Collection function's Automated Collection System (ACS) call sites and Collection Field Function (CFf) district operations). As indicated in the included table, FY 1992 notice collections are off some $1.2 billion from FY 1990 results, a 4.8 percent drop.

In the short-term, notice collections are unresponsive to IRS efforts. The taxpayer either chooses to respond to a mail notice or not. Our research has found a very high correlation between per capita income (from the year before) and notice collections. The economy is the major factor in determining whether taxpayers have enough money in their pockets to pay in notice status. As the recession deepened in FY 1991 and FY 1992, notice collections did indeed decline.

On the other hand, TDA collections were up from FY 1990 to FY 1991, and from FY 1991 to FY 1992. FY 1992 TDA dollars were up some $795 million from FY 1990, a 10.6 percent increase. The relatively slight 1.4 percent increase in TDA collections from FY 1990 to FY 1991 stemmed from hiring and training more than 1,600 new collection staff that year. The relatively low productivity of the new hires combined with the opportunity cost (lost revenue) of assigning experienced collectors to training and coaching new hires rather than to the collecting of revenue is reflected in this slight gain. As the new hires entered their second year in FY 1992, and as their trainers and coaches returned to full-time collecting, TDA collections jumped markedly, up $689 million from FY 1991, a 9.1 percent jump.

SENATOR KERREY: The IRS has been involved in a major automation effort and it will continue through the new administration. To what extent has this enabled the IRS to reduce personnel?

COMMISSIONER RICHARDSON: Tax Systems Modernization and other system enhancements have allowed us to reduce 1,050 FTEs and $42 million from our FY 1992 budget and 1,343 FTEs and $50 million from our FY 1993 budget. In addition, our FY 1994 budget request reflects a reduction of 1,219 FTEs and $55 million.

SENATOR KERREY: How will the continued automation further affect personnel?

COMMISSIONER RICHARDSON: TSM is expected to be fully implemented in 2001, and by that time our workload will have increased by almost 20 percent over the current level. We anticipate that TSM will allow IRS to conduct business in the year 2000 with our FY 1992 staffing level with no decrease in customer service or audit coverage.

SENATOR KERREY: To what extent has it increased collections and what is your projection on future collections?

COMMISSIONER RICHARDSON: According to our estimates, an additional $157.7 million in direct revenue will be collected due to reduction in barred statute cases over the life of TSM (1990-2008). In other words, since TSM will facilitate more timely completion of compliance activities, less cases and associated revenue will be lost as a result of expired statute of limitations. Additionally, since TSM will result in fewer late refunds, the Service will save $2.9 billion in late refund interest payments. There will also be a gain of interest earned due to earlier deposit of remittances and earlier access to Federal Tax Deposit (FTD) funds. Netted from this will be the loss of interest due to earlier refund payments to taxpayers.

The most important impact of TSM is that it will increase the level of voluntary compliance. Our current voluntary compliance rate is 82.7 percent. Our goal is to achieve a voluntary compliance rate of over 90 percent, which would yield an additional $50 billion annually.

Early roll-outs of TSM initiatives are contributing to achieving these goals. Implementation of Corporate Files On-Line (CFOL) has provided our employees on-line access to more accurate and complete taxpayer information, earlier resolution of problems, and improved ability to deal with non-compliant taxpayers. For example, revenue officers find that use of taxpayer address information available through CFOL results in more fruitful first contacts because the information is generally more current than from other traditional sources. Revenue agents and tax auditors can also use CFOL data to determine if audit issues are applicable to subsequent year returns and immediately make additional determinations. Before CFOL, the examiner would have needed to obtain a paper copy of the return from the taxpayer or the Service Center. The development and roll out of Integrated Case Processing applications and universal workstations will provide significant additional enhancements.

SENATOR KERREY: To what extent has it enabled you to process returns more promptly?

COMMISSIONER RICHARDSON: We have made great strides in providing our customers with alternatives to filing paper tax returns and payments. Through projects such as Electronic Filing (ELF), TeleFile, 1040PC, and others, our goal is to provide taxpayers a variety of alternative filing methods, all of which are designed to reduce taxpayer burden, reduce errors, and increase our processing efficiency.

- Electronic Filing Electronic filing allows taxpayers to provide their tax return information to a

third party processor, usually a tax preparer or in some cases a Volunteer Income Tax Assistance (VITA) worker, who transmits the information for them to the IRS through a computer linkage. The returns received electronically have lower error rates and get speedier refunds than paper returns; and we do not incur the labor costs to manually enter the information into our computer system. To the extent that there are errors, they are almost always resolved within a matter of days after filing, in contrast to errors on paper returns that can take weeks to resolve. Also, refunds issued through direct deposit result in faster availability for the taxpayer and eliminate paper check processing for the government. During 1993, we received over 12 million electronic returns.

• TeleFile Another innovative approach to filing was offered during the 1992 filing season; approximately 125,000 taxpayers filed their returns using touch-tone telephones. TeleFile, which was tested on a limited basis in Ohio, was available to certain taxpayers who were eligible to file a 1040EZ return. We are continuing the TeleFile test in Ohio this year with a major enhancement. Taxpayers are using a "voice signature" at the end of the telephone call instead of sending in a signature on paper. This is an important step in developing a completely paperless return process and reduces time and expense for both the taxpayer and the IRS. In 1993, we have received 149,000 returns with 68,400 using the voice signature option. There are plans to expand TeleFile to seven states in 1994.

• 1040PC Another filing alternative implemented nationwide last year was the 1040PC return format. This alternative offers a unique option to taxpayers and practitioners who use personal computer software to prepare their tax returns. The printed 1040PC format reduces a regular 12 page return to two pages. Returns filed in the 1040PC format are processed with fewer errors than regular returns because they were computer prepared and because they are more easily converted to computer readable data. There is also less paper to handle, less postage for the taxpayer, and a considerable reduction in storage costs for IRS. In 1992, IRS received nearly 1.5 million 1040PC format returns; this year, we have received 4.8 million 1040PC returns.

• Federal/State Electronic Filing To further reduce taxpayer burden, the IRS and seven states (Kansas, Maine, North Carolina, South Carolina, New York, Wisconsin, and West Virginia) tested joint electronic filing of federal and state tax returns in 1992. An additional eight states (Indiana, Kentucky, Louisiana, Michigan, Mississippi, New Mexico, Oklahoma, and Utah) are participating in 1993. Under joint electronic filing, taxpayers are able to satisfy both filing obligations with a single electronic transmission of their tax return information. This eliminates the need for preparing two separate returns and mailing them to different places.

The proper taxpayer information is simply directed to the correct destination. More than 160,000 state tax returns were filed under this program in 1992, and 630,290 state returns were filed as a part of the 1993 program.

SENATOR KERREY: Some serious abuses have been demonstrated with the use of electronic filings and the "fast return" program. What is being done to address these abuses and loss of tax revenue?

COMMISSIONER RICHARDSON: Abuses in the Electronic Filing (ELF) program are a genuine concern to the IRS. The Criminal Investigation activity performs a critical role in the servicewide approach to countering these abuses. The Questionable Refund Detection Teams (QRDT) in each of our Service Centers are responsible for identifying fraudulent filings and stopping refunds associated with those returns.

These teams have been provided improved computer programs to deal with the receipt of the electronic information. They were also provided with improved computer programs which extend the period of time they have to stop refunds. The most suspicious returns had the refunds systematically delayed to allow additional time to stop the fraudulent refunds.

The teams were also provided additional staffing, from internal sources, to be able to identify and stop the fraudulent refunds. There are also plans to implement the use of Artificial Intelligence applications in 1994 to assist in the identification of fraudulent returns. The electronic refund deletion rate through the end of May was 77 percent. This is an increase from 67 percent for all of last year. There are also plans to start automating the QRDTs in 1994.

However, there is no indication that the teams are detecting all the abuse. In fact, there are indications that a subtler type of crime is being committed by Electronic Return Originators (ERO). They are paying the filer a small refund based on the good W-2 and then increasing dependents and claiming Earned Income Tax Credit (EITC) to get a larger refund. A Refund Anticipation Loan (RAL) is then applied for in the filers name, the RAL is provided, and the ERO forges the filer's signature.

The totality of fraud in the ELF program is also being evaluated by the IRS Research Division. This study should be completed and available by early 1994.

SENATOR KERREY: Do you have any evaluation of the accuracy of electronic filings?

COMMISSIONER RICHARDSON: The validation process that is built into the Electronic Filing Program permits a higher quality return. The error rate (i.e., mistakes made by

the IRS and taxpayers) on electronically filed returns is less than 2 percent compared with 17 percent on paper returns.

SENATOR KERREY: How difficult is it to resolve a mistake in an electronic filing versus one in a traditional filing?

COMMISSIONER RICHARDSON: Many of the common mistakes made by taxpayers on paper returns are caught in the electronic filing validation process, e.g., not carrying over a dollar amount from a schedule to the Form 1040. Mistakes are corrected in the same manner regardless of how the return was received. At a certain point in processing, all returns are processed the same way.

SENATOR KERREY: In the past, large percentages of the tax advice provided by the IRS over the telephone was found to be erroneous. What will you do to address this problem?

COMMISSIONER RICHARDSON: The accuracy of telephone responses has steadily improved over the last few years. Our tax advice accuracy rate, as measured by the Integrated Test Call Survey System (ITCSS) has increased from 77.2 percent in FY 1990 to 88.7 percent through June 19, 1993.

The continued improvement of our accuracy rates can be attributed to our ongoing emphasis on training our telephone assistors, our increasing ability to effectively use research materials, and primarily the commitment and efforts of our Taxpayer Service employees and managers.

SENATOR KERREY: What percentage of calls to the IRS is currently handled by recorded message and what must a citizen go through in order to talk to a human? The IRS seems to be doing everything to get back taxes paid and tax avoiders to come forward voluntarily. What is being done to personalize assistance to complying taxpayers, which in effect could reduce noncompliance?

COMMISSIONER RICHARDSON: Through June 19, 1993, the Service answered 57.5 million toll-free telephone calls. Of that number, slightly more than 50 percent were handled by our Tele-Tax automated tax information system. Since Tele-Tax is almost completely automated, it is capable of cost-effectively handling certain types of calls, such as the status of a taxpayer's refund. This automated tax information system frees up our live assistors to respond to more complex inquiries.

Of the remaining calls, about 26 percent are answered by an voice response unit (VRU) which allows touch-tone callers to direct themselves to an assistor trained to answer their specific questions. In addition, these VRUs have increased productivity by again allowing our assistors to perform work more complicated than just transferring calls to the correct extension. We are

designing the VRU system to allow any taxpayer to talk with a live assistor.

To personalize assistance to taxpayers, the Service has redesigned the training program for front-line assistors to stress customer satisfaction. This new training program includes modules on communication skills, education of taxpayers on their responsibilities, and job simulation practices.

SENATOR KERREY: It is my understanding that a national reorganization initiative is currently underway in the Internal Revenue Service. The Internal Revenue Service operates a toll-free office in the Omaha District with 160 employees that service taxpayer questions from Nebraska, Montana, North Dakota and South Dakota. As a result of the reorganization efforts, the toll-free office in the Omaha District may be relocated or one large call site for all taxpayer services may be created. What is the status of the reorganization effort? Please provide me with the details of your reorganization plan. Has a decision been made regarding the location of the toll free sites or the creation of one mega call site for the Internal Revenue Service?

COMMISSIONER RICHARDSON: For the past several months, the IRS has been engaged in a major study of the current IRS structure and business methods, with an eye toward identifying the functional limitations of today's organization and defining a better way of delivering service, shoring up compliance, and administering the tax system.

IRS efforts to define its future business vision resulted in three separate study groups -- the Service Center Organization Study, the District Organization Study, and the National Office/Regional Organization Study.

The IRS has known for some time than it does not make good business sense simply to automate existing systems. Technology provides an excellent opportunity to better serve the taxpaying public, but unless the IRS organizational structure <u>complements</u> the technology, much of the benefit will be lost.

We believe that technology will allow us to provide greatly improved service at costs lower than today's levels. The first part of our analysis by the three study groups is complete. We believe that we know how the IRS can do its work differently. We are now in the process of making the difficult choices about where the different parts of the organization will physically conduct business in the future. These decisions will play out during the balance of this decade. Clearly, we think that we can deliver better, more integrated assistance with fewer physical sites.

In answer to your specific question about the Omaha District, the IRS is studying all aspects of its current telephone operations in 44 geographical locations. Omaha is one of these sites. While no firm decision has been made at this time with regard to sites, we will be making these decisions during the next several months. We will inform subcommittee members of these decisions prior to public announcement.

In the event that you and/or your staff would be interested in a briefing on the current status of the overall plan to "reinvent" the IRS, IRS officials would be happy to make themselves available.

SENATOR KERREY: How many FTE's do you expect to have in Nebraska in FY 94 and what is your projected caseload?

COMMISSIONER RICHARDSON: We are projecting 90 FTEs for the Omaha District taxpayer services activity in FY 1994, and they anticipate assisting about 830,000 taxpayers.

SENATOR KERREY: What is the nature of the caseload in Nebraska?

COMMISSIONER RICHARDSON: The Omaha District expects to assist 830,000 taxpayers in FY 1994: 425,000 via toll-free telephones, 52,000 walk-ins, 1,000 through correspondence, 320,000 via Tele-Tax, and 32,000 through the Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) Programs.

QUESTIONS SUBMITTED BY SENATOR BYRD

IRS Computer Center in Martinsburg, West Virginia

SENATOR BYRD: Commissioner Richardson, for the past several years, I have posed questions to the Internal Revenue Service regarding the expansion of the Martinsburg IRS Computer Center due to a change in operational responsibilities resulting from the implementation of the tax system modernization program.

I have been advised that the Martinsburg IRS Computer Center currently employs approximately 850 employees, with an annual economic impact of approximately $49 million (including $29 million in salaries), and that the Center has four buildings currently under a lease arrangement:

- Main Facility - approximately 144,000 square feet.
- National Information Systems Training Center (NISTC) - approximately 27,000 square feet.
- Warehouse Building - approximately 37,000 square feet.

- Berkeley Plaza - approximately 21,000 square feet.

Please update for the record the current figures for employment and annual economic impact, including salaries, benefits, and local purchases.

COMMISSIONER RICHARDSON: The Martinsburg Computing Center (MCC) currently employs approximately 852 employees, with an annual economic impact of approximately $43 million (including $31 million in salaries and benefits), and $2.5 million for local purchase in FY 1993 to date (FY 1992 was $8.1 million).

SENATOR BYRD: I am advised that GSA will be building a $75 million facility in Martinsburg at the same site as the IRS annex facility. What are IRS' plans in connections with this facility?

COMMISSIONER RICHARDSON: GSA and IRS are working together in reviewing the long- term space requirements and existing space holdings. The initial steps (Prospectus Development Study) have begun to obtain approvals (design and construction) of a facility to consolidate some of the current lease arrangements. The cost estimate for the new facility is $92 million. One option is to locate the new facility at the same site as the IRS annex facility.

SENATOR BYRD: I have been contacted by Martinsburg employees about the fact that between 100 and 250 jobs will be cut in Martinsburg over the next several years. What is your reaction to this news?

COMMISSIONER RICHARDSON: The reduction projections center around the impact of one major procurement that will buy mainframes and robotic equipment for the Martinsburg and Detroit Computing Centers. However, all affected employees will be retrained and offered other jobs with the opportunity to maintain their current grade. In the short term (FY 1994), there will be no change in overall staffing levels.

SENATOR BYRD: I understand that the IRS is in the process of changing the way it does business. Where does Martinsburg figure into a reorganized IRS of the future?

COMMISSIONER RICHARDSON: Over the next several years the IRS has a continuing commitment to Martinsburg. Martinsburg is slated to be a major player in the re-designed IRS of the future. Martinsburg is well positioned to increase the number of higher graded computer and telecommunications specialist positions as it loses non-technical, lower-wage jobs to automation.

SENATOR BYRD: At the end of the decade, in terms of numbers of employees, will Martinsburg be bigger, smaller, or about the same size it is today?

COMMISSIONER RICHARDSON: With the addition of a specialty call site at the Martinsburg Computing Center to handle technical and legal questions related to magnetic media filing, coupled with the introduction of the Corporate Files on Line (CFOL) and On-Line Entity (OLE) projects, the Center's staff has increased over the past several years. While it is difficult to project actual numbers through the end of the decade, there should be growth in job enrichment over the next several years.

SENATOR BYRD: Please also provide for the record the timeframes and costs of the leases on each of the above buildings.

COMMISSIONER RICHARDSON: I submit the following information for the record:

MCC Leases	Square Footage	Lease Expires	Remarks
MCC Main Building	121,600	09/20/99	Center & South Section Leases Expired
NISTC	26,825	09/13/99	
MCC Storage Facility	36,313	01/12/00	
Berkeley Plaza	41,055		

SENATOR BYRD: What other facilities are being considered in connection with the expansion at the Martinsburg IRS Computer Center?

COMMISSIONER RICHARDSON: The Liberty Park Annex, a 63,000 square foot facility, is being considered in connection with the expansion at the Martinsburg Computer Center.

SENATOR BYRD: What other facilities are being leased and what plans exist for construction of additional facilities?

COMMISSIONER RICHARDSON: We are considering the following facilities:

MCC Leases	Square Footage	Lease Expires	Remarks
Treasury Multi-User Acquisition Contract Site (Addition to NISTC)	12,955	09/13/99	Supplemental Lease Agreement Under Negotiation Between GSA & Lessor
Information Returns Call Site (Addition to Berkeley Plaza)	9,000	08/30/98	Pending Negotiation Between GSA and Lessor
Federal Building	2,121	N/A	Government Owned Building
Long Term (Consolidation Facility)	280,000	N/A	Along With Annex Plans Are To Allow Above (Current) Leases Expire

SENATOR BYRD: In order to expedite the construction of the Annex to the Computer Center, on April 25, 1990, I wrote to the House and Senate Committees on Environment and Public Works requesting expedited approval of the prospectus for the Annex. Subsequently, the prospectus was approved (with a $2.5 million annual lease cost), allowing the General Services Administration to solicit bids for construction of the project.

On January 19, 1993, I received a letter from the then-Commissioner of the Internal Revenue Service, reporting that GSA informed IRS that because all bids from prospective developers had substantially exceeded the congressional prospectus authority of $42 per square foot, that IRS would have to alter its building requirements, reduce the cost, and reopen the bidding process, in order to obtain space by 1994. Please provide for the record the current status and a milestone schedule for this project.

COMMISSIONER RICHARDSON: I submit for the record the status and milestones for this project:

Activity	GSA Milestone	Status
Issue Solicitation to Developers	02/16/93	Completed
Pre-Bid Meeting	03/05/93	Completed
Receipt of Initial Offers	04/26/93	Completed
Receipt of Best and Final Offers	07/15/93	On Target
Lease Contract Award	11/15/93	
Floor Plans to Lessor	01/01/94	
Complete Construction and Occupancy	04/01/95	

SENATOR BYRD: What can be done to accelerate this project?

COMMISSIONER RICHARDSON: Senator Byrd, at this time, the project is proceeding on schedule. I do not believe that there is anything further that we can do at this time to accelerate the project.

SENATOR BYRD: Commissioner, may I have your assurances that you will do what you can to accelerate this project and that you will keep me fully informed of the progress of this important project?

COMMISSIONER RICHARDSON: Senator, I assure you that we are working on the timely completion of this project and I will keep you informed of its progress.

IRS Administrative Services Center - Beckley, West Virginia

SENATOR BYRD: Commissioner Richardson, the Fiscal Year 1992 Treasury, Postal Services and General Government Appropriation bill included, at my request, $25 million for design and construction of a Federal Office Building and Courthouse to house an IRS 300-person operation, as well as for other Federal agency space requirements. The Fiscal Year 1993 Treasury, Postal Service and General Government Appropriation bill included, at my request, an additional $10 million, for a total $35 million for this project.

In a letter to me, dated March 23, 1993, Acting IRS Commissioner Dolan, provided the following information:

"IRS submitted permanent site requirements to GSA on January 29, 1993. GSA will in turn establish milestones through 1997 to ensure site construction. IRS

Staff are also working on the Project Master Plan that includes establishing a temporary Administrative Services Center site with limited operations in Beckley by late 1993 or early 1994. The Master Plan will cover the transition and gradual phasing in of additional operations to the temporary site while the permanent site is under construction. The permanent site is scheduled for completion in early 1997, with an estimated 300 positions to be permanently housed at the Beckley facility."

Please provide the status and a milestone schedule for this project. What can be done to accelerate this project?

COMMISSIONER RICHARDSON: IRS and GSA personnel conducted site surveys and evaluations of property on June 17th and 18th for the start-up and temporary Administrative Services Center (ASC), as well as land for the new Federal Building/Courthouse. GSA will be providing project milestones for completion of the new Federal Building/Courthouse to the Senate Committee after a site has been selected.

SENATOR BYRD: Please work with the GSA and other Federal agencies to estimate the number of employees to be stationed at the facility, once it is completed along with the annual economic impact, including salaries and other local purchases.

COMMISSIONER RICHARDSON: The estimated annual impact attributable to base IRS salaries for FY 1994 is $500,000 for approximately 25 employees. By FY 1997, the impact will grow to about $7.5 million for approximately 300 employees. Estimates on local purchases will be determined with GSA's help as the project progresses.

Need for Interim IRS Facilities in Beckley

SENATOR BYRD: The Senate report accompanying the FY 1993 Treasury, Postal Service Appropriation bill indicated that $1,225,000 would be used for the IRS Diagnostic Services Center Project Office. In a letter from Acting Commissioner Dolan, dated March 23, 1993 I was informed that the need for a diagnostic center was overshadowed by the need for an administrative services center. Please provide for the record a plan of how the $1,225,000 will be obligated and expanded in support of an IRS Administrative Services Center to be located in Beckley.

COMMISSIONER RICHARDSON: FY 1993 expenditures include operating costs for the ASC Project Office and support services for establishing the start-up site in Beckley. Recruitment, staffing, training, telecommunications, ADP equipment, and workstation furniture are included in the operating costs.

SENATOR BYRD: How much is included in the FY 1994 President's Budget to continue implementation of the plan

to locate an Administrative Services Center at Beckley later this year, which will initially include 20-30 personnel?

COMMISSIONER RICHARDSON: No additional funding is included in the FY 1994 President's Budget. Continuing implementation will proceed using available resources as outlined below.

SENATOR BYRD: Please elaborate on these plans for the record, and include projected staffing and funding levels for FY 1994, FY 1995, FY 1996, and FY 1997.

COMMISSIONER RICHARDSON: Projected costs for supporting the temporary site through FY 1997 are as follows:

- FY 1994: $2.0 million for 30 employees
- FY 1995: $4.3 million for 90 employees
- FY 1996: $6.3 million for 150 employees
- FY 1997: $9.0 million for 300 employees

The budget forecast for FY 1997 is dependent on GSA timetables for the completion of the Federal Building/Courthouse and estimated date of occupancy of IRS space to accommodate up to 300 employees. If the site completion timetables are not met, FY 1997 budget figures will remain at approximately the same level as FY 1996 until IRS can move into the permanent ASC site.

SENATOR BYRD: Commissioner Richardson, according to information provided in Acting Commissioner Dolan's March 23, 1993 letter, it would appear that the IRS will need to secure interim facilities in Beckley in order to initiate operations of the Administrative Services Center prior to the completion of the new Beckley Federal Office Building and Courthouse in 1997. What is the status of acquiring this temporary space? How much temporary space is needed, and how many employees are expected to be housed in this temporary space? When do you expect to occupy this space?

COMMISSIONER RICHARDSON: The start-up ASC site scheduled to open in August 1993 will be located in the 4,000 square feet former Social Security Administration (SSA) Building in Beckley. The building will accommodate approximately 25 employees assigned to the Accounts Payable unit that will be established. Recruitment for the positions is scheduled for August 1993. Additionally, the IRS/GSA survey team is conducting site reviews for the 20,000 square feet of property needed for the expanded temporary site. This will allow IRS to maintain a total staff of approximately 150 employees by early FY 1996. This staffing level will be maintained until IRS can move into the new Federal building complex.

SENATOR BYRD: Commissioner Richardson, may I have your assurances that you will do what you can to accelerate this project and that you will keep me fully informed of the progress of IRS projects in West Virginia?

COMMISSIONER RICHARDSON: The Service is fully committed to the ASC project and timely implementation, and we are very willing to provide updates on the project's progress.

Keydata Systems, Inc.

SENATOR BYRD: Over the last few years, I have worked to help establish a data processing business, Keydata Systems, Inc. (KSI), in Beckley, West Virginia.

I am advised that the Keydata System's contract was awarded on October 18, 1990, with a base year, and four option years, and that the total estimated volume of currency transaction reports for FY 1993 was between 4.8 million and 5.4 million, with an estimated contract value of between $4,320,000 and $4,860,000. Is this correct? How is the work at Keydata Systems progressing? How many are currently employed at Keydata Systems? What are the prospects for FY 1994 and FY 1995?

COMMISSIONER RICHARDSON: You are correct, Senator. Keydata Systems, Inc. (KSI) was awarded a data entry contract in support of Currency Transaction Report (CTR) processing in October, 1990. In FY 1993, we anticipate that 4.82 million CTRs will be keyed by KSI with an estimated contract value of $4.82 million. To date, the Internal Revenue Service has been satisfied with the performance of KSI.

KSI does not perform CTR data entry exclusively at the Beckley, West Virginia facility. At present, approximately 25 percent of CTR data entry is performed at KSI's Manassas, Virginia site. The Beckley facility employs 101 people. The Manassas facility employs 35 people. This dual site processing is a KSI decision, and KSI allocates the workload between these sites, not the IRS.

Due to the projected CTR document volume, we estimate that contract payments to KSI will exceed $4 million in both FY 1994 and FY 1995. Over the life of the CTR contract, the Internal Revenue Service could make payments to KSI totalling more than $22 million.

QUESTIONS SUBMITTED BY SENATOR BOND

SENATOR BOND: The number of Tax Returns continues to grow and the IRS continues to reduce the number of FTE in this activity. The reductions are always based on productivity savings. Could you detail what those savings will be? What happens if the productivity levels are not met?

COMMISSIONER RICHARDSON: In the FY 1994 Budget, we identified Returns Processing productivity savings related to three Tax Systems Modernization (TSM) projects--

Corporate Files On-Line (CFOL), Service Center Recognition Image Processing System (SCRIPS), and the Cash Management System (CMS). CFOL, which allows IRS employees on-line computer access to tax return information, is expected to yield a savings of 145 FTE. By providing employees with the capability to optically scan selected tax information and documents directly into a computer, SCRIPS will result in a productivity savings of 53 FTE. Finally, CMS will allow the Service to process and transfer funds electronically, yielding productivity savings of 3 FTE.

If the productivity levels are not realized, the Service would be forced to consider absorbing corresponding resources from alternative areas, since the resources to be saved through productivity would have already been deleted from the Budget. Since the Compliance Initiatives are program increases, they could be the starting point for potential reductions. However, the Service could opt to preserve the Compliance Initiatives and reduce the base instead. If the Compliance Initiatives were reduced, the Service would lose approximately $1 billion in revenue over a five year period. The corresponding revenue loss for a base reduction would depend on where in the base we took the reduction.

SENATOR BOND: How will you do this with a staff reduction?

COMMISSIONER RICHARDSON: Re-engineering of our business processes, enhancements to our computer systems through Tax Systems Modernization, and increased use of new technologies will enable us to provide better service to taxpayers in the future with fewer resources than we use today.

SENATOR BOND: Would you outline these changes for the subcommittee?

COMMISSIONER RICHARDSON: The changes contemplated for Taxpayer Service are part of an overall strategic business redesign effort currently underway in the IRS to ensure that we capitalize on modernization efforts and new technologies. Although we are still in the planning stages and cannot outline all of the changes at this time, some examples of future operational capabilities include:

- improved systems and training that will further enhance an employee's ability to provide one-stop service, thereby reducing the need for multiple contacts, which are costly for the IRS and frustrating for the taxpayer;

- increasing taxpayer access to telephones through implementation of a modernized voice and data communications system; and

maximizing resource use by eliminating the geographically based systems we have today and distributing workload among all sites nationwide. This will result in a truly corporate inventory where all calls are answered (anywhere in the country) by a person qualified to handle the call.

SENATOR BOND: Will Taxpayers be getting better service as a result?

COMMISSIONER RICHARDSON: We are confident that the changes we make in the area of Taxpayer Service will benefit all taxpayers, reduce taxpayer burden, and enhance taxpayers' ability to comply with tax laws. Future contacts with the IRS are being designed to be faster, less expensive, less burdensome, more timely, and more conducive to quality results for both IRS and the taxpayer.

SENATOR BOND: We often hear complaints that Taxpayers cannot reach the IRS to get questions answered. I have been told that 73 percent of the callers this year got a busy signal. Will we be able to see improvement with these changes?

COMMISSIONER RICHARDSON: By our estimates, 58.9 percent of our callers reached us on their first attempt. We do agree, however, that we need to work to improve the customers' access to available services. The IRS is currently conducting a customer survey to gain greater insight into taxpayer preferences in this area.

We fully expect that the implementation of modernized voice and data communication systems will reduce the volume of busy signals on our toll-free lines. Sophisticated automated call routing equipment will allow taxpayers greater access to IRS assistors nationwide. Also, interactive systems with increased automated response capabilities will reduce the need for taxpayers to interact with IRS assistors. The addition of this equipment in 1993 resulted in a 13 percent increase in toll-free calls answered over the 1992 filing period. We anticipate further improvement in FY 1994 as old systems are replaced.

Additionally, we will be more accurately quantifying our demand and will be able to determine how many callers actually reach us or attempt to reach us, instead of estimating the number of individual callers who do not get through to our system.

SENATOR BOND: How can that be with less people answering questions?

COMMISSIONER RICHARDSON: A combination of redesigned systems and enhanced technology will allow us to provide better service with slightly fewer people. Voice response units will substantially reduce the need for taxpayers to

talk with an IRS assistor since a large number of calls to the toll-free number are procedural in nature, such as requests for forms, publications, office locations and hours of service.

In the future, taxpayers will have 24-hour access to automated voice response units which will provide answers to most of these types of inquiries. In instances where access to an IRS assistor is needed, One-Stop Service initiatives will reduce the need for multiple contacts with the Service; our goal is to make "one call do it all."

SENATOR BOND: The request has several initiatives which we will look into a little later. But an important issue pertains to baseline funding. Is your baseline funding level adequate to do the job?

COMMISSIONER RICHARDSON: The FY 1994 IRS budget request ($7.396 billion and 116,060 FTE), consistent with the President's efforts to reduce the deficit, is sufficient for the continued pursuit of all systems modernization efforts, taxpayer compliance with tax laws, maintenance of a high commitment to service and assistance for taxpayers, and a strong commitment to the effective use of existing resources.

SENATOR BOND: Would an inadequate base level keep you from delivering on the initiatives that are outlined in this budget?

COMMISSIONER RICHARDSON: In the strictest sense, an inadequate base funding level does not necessarily prevent the Service from delivering the initiatives in the FY 1994 Budget. However, an eroded base would ultimately result in a reduction in revenue generated. Under such a scenario, the revenue gained from the initiatives could be partially or totally offset by revenue lost from base erosion.

SENATOR BOND: Overall audit coverage is only about 1 per cent. Audit coverage has declined over the years. There are those that say that this has led to the Tax Gap. Compliance and audit would seem to go hand in hand. There are several questions which come to mind. What is the role of audits and the proper balance between auditing returns, doing computer matches and tracking down nonfilers?

COMMISSIONER RICHARDSON: The role of an audit is to determine the substantially correct tax due from a taxpayer. The audit may result in no change to the tax originally calculated on the return, an additional assessment or a refund. Revenue agents apply generally accepted accounting principles in reviewing books, records, and third party information to determine if the amounts of income and deductions are correct as well as determining if these items were properly treated according

to the tax laws, court decisions, and regulations. The Service tries to do this with the minimum burden placed on the taxpayer.

The overall goal of using audits, computer matches, and identifying nonfilers is to maximize the compliance impact and yield while minimizing taxpayer burden and ensuring equity. Each one of these methods helps in meeting these goals. For example, assigning resources to identify nonfilers helps to ensure that those taxpayers who do file are not the only ones who must meet their tax obligations. This is essential for equity. Document matching allows the Service to verify many return items with very little burden on taxpayers. In fact, if there are no computer identified discrepancies, there is no burden to the taxpayer. However, in many cases, the information on a tax return cannot be matched by computer. In these cases, it necessary to review the taxpayers books and records by performing an audit.

SENATOR BOND: What are acceptable audit coverage rates; should they be the same around the country?

COMMISSIONER RICHARDSON: We do not have a targeted optimal coverage rate. Our current efforts target those areas where a high non-compliance rate is evident. For example, our initiatives for FY 1994 include additional staffing in the areas of employment taxes, cash businesses, foreign controlled corporations, nonfilers, and high income individuals.

Coverage rates will not be the same in all geographic areas. All individual returns and corporate (under $10 million in assets) returns are scored in terms of their potential for tax change by a national scoring system. The highest scored returns are selected for audit. These returns are not distributed proportionally across the country. Therefore, some states will receive a larger proportion (coverage) than others.

SENATOR BOND: What is the balance among Corporate, Individual, Partnership and other types of returns?

COMMISSIONER RICHARDSON: As stated above, the Service takes many factors into account in determining how its limited resources will be applied. Considerations include equity, maximizing compliance impact, maximizing yield, and minimizing taxpayer burden. For Fiscal Year 1994, we anticipate the following coverage levels:

- Corporate Returns: 3.32%
- Individual Returns: 0.90%
- Partnership Returns: 0.76%

SENATOR BOND: Is current methodology the most effective and efficient?

COMMISSIONER RICHARDSON: The Service is always striving to improve its methodology for increasing compliance. Currently, efforts are underway to redesign the Taxpayer Compliance Measurement Program (TCMP). One of the key items in this redesign is grouping taxpayers into more homogeneous classes such as occupation and industry group. These groupings are likely to have more similar filing and compliance characteristics than our current groupings based on income and asset size.

SENATOR BOND: Tax System Modernization is the major portion of the enhancements being requested for FY 1994. Significant funds have been appropriated to date and I assume considerable funding will be necessary to complete TSM. What will be accomplished this year?

COMMISSIONER RICHARDSON: Some of the major activities we plan to accomplish in FY 1994 include:

- Fully implementing the Automated Underreporter in two additional sites.
- Expanding nationwide, on a voluntary basis, the test of electronic filing of federal tax deposits.
- Awarding the Service Center Support System/Telecommunications Acquisition contract.
- Awarding the Document Processing System contract.
- Awarding the Corporate Systems Modernization/Mirror Image Acquisition contract.
- Implementing Integrated Case Processing in the first locations.
- Expanding Tele-File to seven states.
- Expanding Joint Federal/State Filing to 15 states.
- Providing your Subcommittee with more detail of the concept resulting from our business studies.

SENATOR BOND: Is IRS adequately prepared to move to the next stage of TSM?

COMMISSIONER RICHARDSON: Absolutely, we must continue our momentum with Tax Systems Modernization. We have made significant progress to date, heeded the advice of our critics, and taken the necessary steps to position ourselves to successfully reinvent the Internal Revenue Service. Although there will be challenges along the way, we are prepared to continue.

SENATOR BOND: Of the money requested for TSM, over 60 percent will be for the synchronized deployment of interim systems. Could you briefly describe what these systems are and what the enhancements will do?

COMMISSIONER RICHARDSON: These systems are part of the Integrated Case Processing (ICP) strategy. Several systems come under the ICP Project umbrella including the Totally Integrated Examination System (TIES), Integrated Collection System (ICS), Automated Underreporter (AUR), and Automated Criminal Investigation (ACI). Corporate Files On Line (CFOL) and Automated Inventory Control System (AICS) also support Integrated Case Processing. A summary description of each system follows:

- TIES automates tax computations, better organizes the examination, and makes additional information available to the examiner.

- ICS automates the assignment and management of active collection cases.

- AUR electronically determines whether a taxpayer correctly reported income by matching wages and other income with the taxpayer's account information.

- ACI improves Criminal Investigators' ability to manage and analyze the large volume of evidence encountered in financial crimes, improve security and foster the coordination of multi- district investigations.

- CFOL provides on line access to taxpayer information, eliminating the need to spend unnecessary time trying to locate the right tax return, a previous letter, or to call back the taxpayer requesting information that IRS has already been provided.

- AICS controls taxpayer correspondence by assigning a unique number to each piece of taxpayer correspondence so that status can be monitored and the issue resolved in a timely manner.

The overall mission of the Integrated Case Processing (ICP) Project is to develop information systems support for all of our case processing activities regardless of the functional nature of the case work being performed. It includes standard modules for generic activities such as performing tax computations while also providing tailor-made software for functional requirements.

The ICP project will provide an architecture that will offer the capability to assemble all current taxpayer information in one electronic case folder, accessible by any authorized user through a universal workstation. This will facilitate the resolution of all issues raised by the

taxpayer. Our analysis of the business case tells us that the ICP system will enable employees to increase their productivity and perform higher quality work. With all the information available to the end user, the employee should be able to resolve most issues and concerns of taxpayers at the point of initial contact.

U.S. Customs Service

STATEMENT OF GEORGE J. WEISE, COMMISSIONER

ACCOMPANIED BY:

JOHN P. SIMPSON, DEPUTY ASSISTANT SECRETARY FOR REGULATORY, TARIFF, AND TRADE ENFORCEMENT

PHILLIP DIEHL, COUNCIL TO SECRETARY AND CHIEF OF STAFF

MICHAEL H. LANE, DEPUTY COMMISSIONER

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KAREN J. HIATT, DEPUTY ASSISTANT COMMISSIONER, COMMERCIAL OPERATIONS

EDWARD W. LOGAN, DEPUTY ASSISTANT COMMISSIONER, ENFORCEMENT

HARVEY POTHIER, DEPUTY ASSISTANT COMMISSIONER, AIR/MARINE OPERATIONS

WAYNE HAMILTON, DIRECTOR, BUDGET DIVISION

INTRODUCTION OF WITNESSES

Senator DeConcini. The next panel of witnesses consists of representatives of U.S. Customs. We are very pleased to have as our lead witness Commissioner George Weise. That sounds very good Commissioner. We congratulate you. We are pleased to have you here. Your extensive background in trade and tariff matters and your knowledge of Congress make you uniquely qualified for this position at this particular time. Your agency, as you know, has many diverse responsibilities and missions. This subcommittee has an interest in these missions and wants to uphold them as best we can. We have had a longstanding, good relationship with the Customs Service, one that I think has been mutually cooperative and supportive and not hiding things from each other and being frank. I would like to continue that with you, Commissioner, and I am sure we will.

Your fiscal year 1994 budget request for U.S. Customs Service totals $1.4 billion, 17,229 full-time equivalent positions. This amounts to a reduction of $61 million and 642 FTE's from the fiscal year 1993 enacted level. Commissioner Weise, I can tell you that I am very concerned about the fiscal year 1994 budget request for the Customs Service. In particular, I am concerned about the very large reduction of personnel and what impact this will have on drug enforcement, trade, facilitation, and merchandise processing. I intend to ask you a series of questions, I may have to submit some of them and I apologize that we are running a little bit late this morning but our ranking member is gone.

So Mr. Commissioner, you may proceed with summarizing your statement. Your full statement will be put in the record.

STATEMENT OF GEORGE J. WEISE

Mr. WEISE. Thank you, Mr. Chairman. It really is a great pleasure. This is my first appearance as the Commissioner of Customs before any congressional committee and it is a great thrill to have my first appearance be before this committee.

Senator DECONCINI. It is a little different sitting on that side.

Mr. WEISE. It is a little bit different, exactly. But I think you know Senator, as you alluded to my background, I started my career more than 20 years ago as an entry level officer with the Customs Service and I spent basically my entire career working in and around the Customs Service. It is an agency that I care so deeply about, so it really is special for me to be able to make my first appearance before you. I know that, as much as I care about the agency, you as well have done so much for the Customs Service over the years. Over the course of the last 3 or 4 weeks since the Senate confirmed my nomination on May 11 and on May 12 Secretary Bentsen swore me in, I have been traveling around Customs districts and ports. I spent the last week, I know you will be interested, in the southwest region along the border. I am one that appreciates that the Customs Service has an awful lot of pride and an awful lot of dedicated, loyal workers, and I know, that it is the people of the Customs Service that give it that pride and that dedication. But we could not do the job without the resources and we owe an awful lot to you, Senator. I want you to know that not only do I appreciate it but the people in the Customs Service very much appreciate it.

I am going to be very brief. I think you have all the budget numbers in front of you. You have already alluded to some concerns in terms of resources. I will confirm that our budget request totals, as you indicated, $1.4 billion for fiscal year 1994 and 17,229 FTE's, which does result in a net reduction of $61 million and 367 FTE from our fiscal year 1993 proposed authorized level. This budget request is a reflection of the administration's policy to reduce Federal employment and administrative costs while improving productivity and fostering economic growth. Customs has a great deal to contribute to these important goals and I welcome the opportunity to work with this Committee to develop new ways of streamlining Customs operations and making the Bureau more effective as a whole.

I am convinced that this can be accomplished and that this can become an even better organization to respond to a rapidly changing future despite overall resource reductions. Clearly, as I have gone around talking to people in the Customs Service, I have told them that I would much prefer to be bringing additional resources with me. It is not something that I desire that we have a reduction in resources, but I believe very strongly that we do have an important task at hand and this administration is trying now to work closely with the Senate and with the House to get this overall reconciliation package through. I think the President believes very strongly and I believe strongly that if we do not start getting a handle on our fiscal deficit we are not going to be the kind of Nation that we want and we are not going to have our children and our grandchildren have the kind of life that we all wish. I would

prefer not to have to make the sacrifice but I believe in what the President is attempting to do. This is a mission that if we all say "Yes, let's tackle the deficit but don't touch me" you are never going to get the job done. I know, Senator, you are having a number of competing pressures on you as you face this reconciliation package.

I think we can meet the challenge. It is indeed going to be a challenge, but I also believe it creates some opportunities for us. I think we need to take a long hard look at our organizational structure. You and I have talked privately and, as you know, there have been provisions in our appropriations bills for the last 6 years that say we cannot expend any resources to study our organizational structure. We have seven regional offices, 44 district offices, and a number of port operations around the country. We have not even been able to look at them to determine how we can effectively reallocate those resources. I pledge that if you will give me the flexibility to look at that, we will work closely with you, and the local business communities to try to reallocate those resources to try to carry out our fundamental mission. That means taking a look at headquarters operations, regional operations, and many layers of midmanagement that are woven into our organizational structure and have been woven in for a number of years, and trying to free up those resources to get them out in the district and port operations where they are effectively doing the mission of the Customs Service. I think that will help us in the longer term. Obviously, in the near term, dealing with fiscal year 1993 and fiscal year 1994 budgets, that does not give us the flexibility yet. But if I can get that impediment removed, I think we will have some areas where we can move forward.

Second, an important initiative is the Customs Modernization Act. In the commercial area, this is something that would allow us to be much more efficient and effective in the utilization of our resources. It would allow us to move in the direction of paperless entry, move toward greater efficiencies in operation in terms of interfacing with the business community. I think that would free up some additional resources that would help us deal with these challenging times.

So those are two very important legislative priorities that are extremely important to me. I appreciate and understand the law enforcement mission that we need to carry out and obviously that is an area that you have spent so much of your senatorial career in trying to give us the resources we need. I would prefer not to have to reduce those but we have to be fair and equitable as we look at our entire Customs operation.

I am going to try the best I can as Commissioner of Customs to be balanced in my view. I do not want to diminish our effectiveness in terms of enforcement. A lot of people have alluded to the fact that my background is primarily commercial and there have been some concerns expressed. But I want to give you and this Committee my personal commitment that I am going to do everything in my power to make this the best Customs Service that it possibly can be. I have been struck by the enthusiasm of the people I have met with thus far as I travel both around the country and within the headquarters operation. I think there are a lot of people who are encouraged by the fact that I have come out of the Customs

Service myself, and that I care deeply about the agency. This is not a job that I happened into. I sought this position out and I worked hard to try to get it because I felt I could make a difference.

I look forward to working with you, Senator, and this committee, to try to deal with the limited resources that we are provided to make them as effectively utilized as absolutely possible. I certainly will be looking to get additional resources along the way, but I want to do my part in working with this administration to accomplish the very important mission that they are attempting to do.

At this point I would ask that my entire statement be made a part of the record. I will be glad to answer any questions you may have.

PREPARED STATEMENT

Senator DECONCINI. Thank you, Commissioner, very much. Your entire statement will be inserted in the record along with a statement submitted by Mr. Simpson.

[The statements follow:]

STATEMENT OF GEORGE J. WEISE

Mr. Chairman and Members of the Committee, it is indeed a pleasure to be here today before the Subcommittee on Appropriations to present the fiscal year 1994 appropriation request for the United States Customs Service. I am extremely proud to appear before this Committee as the new Commissioner of Customs, which is an agency that is not only very special to me, but very important to this country in terms of both border enforcement and revenue collection. I am particularly pleased that my first Congressional appearance as Commissioner is before this Committee. Mr. Chairman, both the Customs Service and I greatly appreciate the strong support that you and the Members of this Committee have provided over the years.

With me today are Mike Lane, the Deputy Commissioner of Customs; Sam Banks, Assistant Commissioner, Office of Commercial Operations; John Hensley, Assistant Commissioner, Office of Enforcement; Charles Winwood, Assistant Commissioner, Office of Inspection and Control; C.L. Brainard, Assistant Commissioner, Office of Management; Harvey Pothier, Director of Air Operations; and Wayne Hamilton, Director, Budget Division.

Customs fiscal year 1994 budget request, which totals $1,408,381,000 and 17,229 FTE, is a net reduction of $61,052,000 and 367 FTE from our fiscal year 1993 proposed authorized level. It includes a single program initiative of $2,500,000 for the Salaries and Expenses Appropriation to begin the crucial redesign of Customs Automated Commercial System.

Customs request also includes $46,063,000 for the new annual Operations and Maintenance Appropriation, coupled with an unobligated balance of $37,027,000 from the old no-year account, for an operating level of $83,090,000. We are requesting $28,000,000 for the Operations and Maintenance of Customs P–3 drug interdiction program, and $21,093,000 for the Air and Marine Interdiction Procurement Appropriation. Customs Small Airports Appropriation reflects a level of $1,406,000 in anticipated operations funded by the Small Airports Account. Customs budget request is a reflection of the Administration's policies to reduce Federal employment and administrative costs, improve productivity, and foster economic growth: Customs has a great deal to contribute to these important goals.

At this time I would like to summarize what I believe is the role of the Customs Service in contributing to this Nation and in functioning as a member of the Executive Branch of Government, and to articulate Customs approaches to its mission in the recent past, and then perhaps most importantly, to outline what Customs approach will be in the future.

Customs was created by the first Tariff Act of 1789, becoming a separate bureau of the Department of Treasury in 1927. The agency was renamed the U.S. Customs Service in 1973. I wish to state clearly and proudly that we regard ourselves as this Nation's primary border agency. In that role as border agency, we enforce the Tariff Act of 1930 and more than 500 laws for some 40 other agencies. This involves collecting appropriate duties and taxes on imported merchandise, determining the admissibility of commodities to protect the health and safety of the citizens and indus-

tries of this country, detecting and preventing the illegal entry of drugs, and investigating instances of money laundering and trade fraud.

Throughout our Nation's history, Customs, as the primary border agency, has responded to a variety of challenges, threats, and national priorities. I would like to review some of the recent challenges and Customs responses to them.

Unfortunately, in the 1980's our Nation's budget deficit and total national debt grew dramatically. It is of particular significance, therefore, that in the decade from 1981–1991 Customs collected $159 billion due to this government from taxes and import duties. Last fiscal year, Customs collected $19 billion!

Also during the 1980's, this country's position as the world's number one industrial and economic leader began to be seriously challenged. Competitiveness became an issue. Customs mounted programs to ensure that our industries and our country did not suffer from unfair and illegal competition. For example, Customs developed an Intellectual Property Rights program to stop the piracy of American inventions, copyrights, and trademarks. In addition, efforts were intensified to detect illegal transshipment of quota merchandise from one country to another in order to avoid agreed upon quotas. Analytical capabilities were enhanced in order to detect fraudulent merchandise and fraudulent country of origin markings. And an interdisciplinary, team approach brought varied Customs resources and expertise to bear on this problem.

Customs endeavored to ensure that this Nation's economy and industries had the benefit of the most innovative commercial importing systems available anywhere in the world. Through the development of the Automated Commercial System and the use of electronic interfaces with the importing community, Customs was able to release over 90 percent of all commercial merchandise electronically within minutes after its arrival in the United States. These approaches helped enable our industries to implement just-in-time inventory systems to reduce the cost of production and to develop greater efficiencies in industrial sectors.

Drug interdiction has been a significant part of Customs mission. During the 1980's, cocaine became the primary illegal drug of choice. In the decade from 1981–1991, Customs seized 855,334 pounds of cocaine. Last fiscal year alone, 244,597 pounds were seized. Customs was able to achieve these successes through the integration of investigative, inspectional, and intelligence programs with an aggressive interdiction strategy that includes interdiction of air smuggling aircraft, interdiction of marine vessels, improved selective targeting at ports of entry, expanded use of canine teams, and the development of high technology methods of conducting drug detection examinations.

The source areas for narcotics, especially cocaine, shifted in the 1980's to Mexico, the Caribbean, and South' and Central America. Customs responded by deploying significant, additional resources to the Southwest border, enhancing the Southwest border facilities through a comprehensive capital improvements initiative, and providing the very latest in detection technology to that border area.

Also during this period, the country began to experience an increase in unauthorized exportation of critical technology desired by foreign countries to build weapons of mass destruction. Customs responded with the EXODUS program, which led to dramatic successes during the Gulf War, as it was able to detect and interdict technology desired by the Iraqis for development of nuclear weapons technology.

Also, as international trade became more complex, Customs responded by launching a series of efforts to train foreign customs services in both the merchandise processing approaches and enforcement methodologies. Training and assistance were also provided in the areas of automation and the standardization of customs operations, as a means of facilitating international trade. This has led to a very high degree of mutual respect and cooperation between U.S. Customs, the Customs Cooperation Council in Brussels, and other customs services around the world.

In part, based upon the knowledge obtained through this Customs interchange, as well as through other sources, we became aware that Japan was, in fact, slowing or prohibiting the imports of commodities into their country through structural impediments. Customs, therefore, participated in the Strategic Impediments Initiatives (SIIs) and focussed on changes that Japan's customs service needed to make to provide the same level of service for imported merchandise from U.S. exporters that we provide to Japanese producers shipping to the U.S.

Through the 1980's, Customs endeavored to maintain an appropriate balance between its drug enforcement and commercial missions. However, it was perceived by the importing community that Customs had tilted too much away from its commercial mission. Accordingly, in the late 1980's and early 1990's, Customs launched a comprehensive and successful campaign to improve the trust, cooperation, and coordination between Customs and the importing community. This campaign has resulted in the highest level of mutual trust and cooperation between Customs and

the importing community that has existed in our recent history. As discussed below, we hope to build on this trust and cooperation to move forward with our strategic goal of full "informed compliance" by the importing community.

Customs has also been responsible for enforcing a number of trade sanctions against foreign countries, such as Cuba, Haiti, and Iraq during this period, as determined by the global situation and national priorities.

Finally, the country's balance of payments picture in relation to other nations became a source of great national concern. While not yet complete, Customs has initiated a concerted effort to improve the quality of our trade statistics so that we could better supply information that can become the basis for accurate projections of this country's balance of payments situation and provide the background for effective policy initiatives and trade negotiations.

To this point, I have briefly outlined Customs response to the many challenges the Nation has faced over the past decade, a period in which this agency has accomplished many things of which it can be proud. I have emphasized its contributions to budget deficit reduction, to this Nation's competitiveness, and to the prevention of violations of commercial and related laws. I have also outlined our approaches and successes in drug interdiction.

We can not, however, based upon the pride in those initiatives, conclude that we have no problems or challenges remaining. In terms of the internal management of the Customs service, we obviously need to provide more institutionalized approaches to improving our strategic planning. We must redesign the aging Automated Commercial System, and also effectively implement a new Trade Enforcement Strategy. We also need to improve the long-term, systematic methods by which we develop automated information systems. And we must have a human resource plan that makes the strongest possible use of our personnel. It should be noted that these initiatives are, in part, based upon the findings and recommendations proposed by the GAO General Management Review of Customs completed in September 1992.

While we are proud of our achievements in the 1980's and are eagerly building the managerial infrastructure to continue to contribute to national priorities, we believe our focus now must be clearly upon how we can contribute to the goals of the Clinton Administration. We have thought long and hard on this issue, and I would like to address our plans in this regard.

In this time of shrinking resources and budgets, we must continue to rely even more heavily on automated systems to reduce the paperwork burden on both the public and this agency. As you are aware, in order to do this, a major legislative initiative is necessary, the Customs Modernization Act. This bill, passed by Congress last year only to be included with other legislation and eventually vetoed by President Bush, provides Customs with necessary statutory authority and flexibility to move forward with our mission in the 1990's and beyond. I pledge to work closely with Congress to achieve enactment of this legislation.

Building on the trust and cooperation established with the business community by the past Customs' administration, we intend to move forward on a path of "informed compliance", relying on these businesses to comply with the necessary procedural requirements for the commercial entry of goods, based on the education which Customs has and will continue to provide to the importing public. Once Customs is assured that an importer has had the opportunity to become "informed", should he then fail to comply with our laws and regulations, then Customs will forcefully deal with violators. There should be no surprises, but there will be consequences for noncompliance.

In this regard, we will work cooperatively with the business community and other agencies of government. In my view this kind of teamwork is essential. Too often in the past there have been "turf battles" and posturing by all parties. This is one of the first practices that must give way if we are to "re-invent government."

The President has emphasized the need for international trade to be fair, for the United States to be competitive, and for other countries and their industries to play by the same rules as we do. In that regard, we can:

—Ensure the fair and effective implementation of the North American Free Trade Agreement (NAFTA) if enacted by Congress.

—Respond to the textile industry's concerns over unfair competition, by continuing to improve the enforcement of the multi-lateral textile agreements to reduce illegally transshipped importations. We have taken action on $850 million in transshipped goods over the past two years.

—Continue to improve our efforts with U.S. industry and other agencies to detect and prevent the occurrence of violations under Intellectual Property Rights (IPR) protection; aggressively enforce, investigate, and aid in the prosecution of violators; refuse entry of the goods; and impose appropriate penalties. IPR viola-

tions rob U.S. industries of the benefits of their research and development and strike at the very core of our competitiveness.

—Working with the U.S. Trade Representative and other agencies, keep the pressure on Japan and China to remove impediments to U.S. exports into their countries.

—Continue our enforcement efforts to prohibit the importation into this country of goods produced by forced or prison labor.

—Continue to expand, as appropriate, our help to the customs services of foreign nations to assist them in facilitating imports into their country and to provide safeguards for trade compliance and enforcement. These efforts currently include support to the countries of the former Soviet Union, emerging democracies in Eastern Europe, and the Arab Gulf nations of Saudi Arabia, Kuwait, Oman, and Bahrain.

In the aforementioned areas, our goal is to ensure that U.S. industries have a level and fair playing field with their competitors internationally, that all competing industries and countries obey U.S. law and regulation, and that foreign countries do not prohibit or impede exports of U.S. goods into their countries.

Also emphasized by this Administration are environmental concerns, as well as concerns about the health and safety of the citizens of this country. By ensuring that merchandise admitted into this country conforms to the laws the Customs Service is directly charged with enforcing, as well as to the more than 500 other laws Customs enforces, we fulfill our responsibility to the public daily, as we examine merchandise and release it into the commerce of the United States. Specifically in this area:

—We are continuing to emphasize our key role in protecting the environment by examining, identifying, and interdicting imported and exported illegal hazardous materials. We work closely with EPA to do this.

—We are continuing to play the primary role at the border in prohibiting the entry or export of contraband, including drugs. We carry this out by emphasizing technological approaches and intelligence information, as well as employing multiple detection and interdiction systems and assets. We enjoy unprecedented cooperation with commercial industry, State and local agencies, State National Guards, and our sister Federal agencies.

—While our primary mission at the border is supply reduction, we do play a role in regard to reducing the demand for narcotics especially among our high school population. The Treasury Department's Project Outreach is a school-based community drug education program, in which Customs is an enthusiastic participant.

I am sure you are familiar with the President's policies to reduce the size of the Federal workforce and cut back on overhead. I am convinced that, given the tools it needs, Customs can not only meet the target reductions but actually improve its operations. There are numerous restrictions in Customs appropriation which tie our hands and keep Customs from reviewing the current Regional and District structure and from reducing entry processing or duty assessment locations, whether or not they are now necessary. This legislation has been in place for many years, and really predates many of our present ways of doing business, especially automation.

In this regard, I would ask for the Committee's assistance, to remove these restrictions so we can engage in a servicewide study from top to bottom. In close consultation with the Committee, we will develop a plan to streamline the organization while responding to changing workloads in geographical areas and providing more efficient and cost-effective service. This could be accomplished by closing purely administrative offices and consolidating duplicative support functions. This may be particularly appropriate in our regional offices, where we could actually enhance service to the public by freeing up regional staff to work in districts. By consolidating the locations where the support work is done, our FTE reductions could be achieved in support functions, and we could improve our ability to provide direct public services. Recognizing the political sensitivity of such an initiative, we would work closely with the Congress and the local communities in the Customs offices which would be potentially affected by such organizational changes.

In summary, the Customs Service will continue its role as the Nation's primary border agency. We believe we are very effectively poised to contribute to national goals related to ensuring a level playing field and fairness in international competition, to improve the economy and reduce the Federal deficit, and to provide for protection of the environment and the health and safety of the American people. We believe that we can carry out this role effectively, having laid the foundation with advanced technology and automated systems to perform our mission in the most efficient and effective manner possible. We can, with your help, make this the best Customs Service ever.

We hope that these remarks have provided you with insight into the U.S. Customs Service, its border mission, achievements, and plans for contribution to the Administration's goals. I look forward to responding to any questions, advice, and guidance you might have.

STATEMENT OF JOHN P. SIMPSON

Mr. Chairman and Members of the Subcommittee, it is a pleasure to appear before you today to discuss fiscal year 1994 budgetary requirements of the U.S. Customs Service. With me today are George J. Weise, Commissioner of Customs, and members of his staff.

Our fiscal year 1994 request for the Salaries & Expenses appropriation is $1,311,819,000 and 17,199 full-time equivalent (FTE) positions. This represents a net reduction of $4,098,000 and 365 FTE's when compared with the fiscal year 1993 authorized level. The overall reduction includes 465 FTE's and $53,067,000 for non-recurring costs. The majority of the FTE reduction responds to Executive Order 12839, which requires each department with over 100 employees to achieve at least a four percent reduction by fiscal year 1995. This reduction is offset by a program increase of $2,500,000 to fund the first part of the redesign of Customs Automated Commercial System; and an increase of $33,692,000 and 100 FTE's to maintain current levels of operation.

Commissioner Weise will be providing you and members of your subcommittee with the specifics of Customs programs. However, I would like to take this opportunity to give you an overview of Customs Service from the Treasury Department's perspective.

The Customs Service is our nation's primary border enforcement agency. Historically, Customs has been a major revenue raising agency, and even with today's greatly reduced ad valorem duty rates and duty-free treatment for many goods, Customs estimates it collected about $19.4 billion in calendar year 1992.

In addition, Customs is responsible for enforcement of over 600 other laws at the border. I am sure that most Americans would be surprised at the variety and complexity of laws enforced by Customs. They include the Endangered Species Act, EPA and DOT emission and safety standards for automobiles, laws protecting the intellectual property rights of U.S. companies, quotas on textiles, apparel, and agricultural goods, dumping and countervailing duty laws, treaties with Central and South American countries to stop theft of their pre-Colombian antiquities, country-of-origin marking requirements, and several U.S. tariff preference programs.

In 1992, Customs faced almost 2.6 million entries of merchandise valued at over $532 billion. The demands of modern trade require that Customs should not unduly impede the movement of goods. We are proud of our ability to face this challenge and are working to be the most modern customs administration in the world.

Customs has enjoyed tremendous success in using automated systems, selectivity, and other innovative techniques to increase its trade enforcement effectiveness while at the same time actually reducing the delay caused by Customs enforcement procedures. Most important, we appreciate the support that this committee has given to Customs commercial programs to enable Customs to cope with its formidable challenges.

In addition, Customs has a key role in the war against illegal drugs. It is the primary interdiction agency along all of our borders. Customs has been at the forefront of the effort to disrupt drug smuggling. During the 1980's, cocaine became the primary drug of choice. In 1980, Customs seized 4,743 pounds of cocaine. In 1990, Customs seized 164,703 pounds of cocaine. In 1992, over 244,500 pounds were seized.

Four years ago the Customs Service began its third century of service to our nation. We are all very proud of Customs record, and mindful of the fact that this record reflects over two centuries of consistent Congressional support to help us with our efforts. With your permission, Mr. Chairman, may I ask Commissioner Weise to describe in greater detail Customs current operations and then we shall be pleased to answer any questions you or other members of the subcommittee may have.

Thank you.

AUTHORITY TO WAIVE REDUCTIONS IN LAW ENFORCEMENT

Senator DECONCINI. I do not have an easy out for you but one way to be relieved of some of those problems. We found out that during our hearings with Mr. Panetta that OMB has authority to waive the reductions in the law enforcement areas throughout the

Government. That is a discretionary authority that has been vested in him. You may know that and I just hope that Mr. Simpson and others here from Treasury would not keep you from at least making a case if indeed you thought there was justification for it. I think there is, both in ATF and yourself and perhaps even Secret Service. I just call that to your attention and hope you are not shy in at least making that request and Treasury would permit it to be decided by OMB because Mr. Panetta was very realistic about the administration's positions. We have to make some cuts but at the same time we are promising 100,000 new police officers on the streets funded by Federal dollars and then reducing our own law enforcement effectiveness. It is kind of hard.

Mr. WEISE. Yes, it is.

THREE HUNDRED POSITIONS FOR THE SOUTHWEST BORDER

Senator DECONCINI. It is just darn hard to explain to the people in Arizona where is this administration in promising more police and then cutting Customs, cutting FBI, cutting DEA, and other agencies.

As you can imagine, Mr. Commissioner, I am particularly concerned about the Service's inability to fill 300 new Customs inspectors for the Southwest border. The committee provided $10.5 million for Customs to equip, hire, and train 300 additional full-time inspectors for the Southwest border in fiscal year 1993. This funding would cover the cost of these inspectors for a full 6-month period based on that is what it would take to get them all online. Now I understand that you will not be able to meet this directive; instead, you will bring on 150 inspectors with 50 funded out of COBRA funds. Can you explain to me why you are using the COBRA funds to support this initiative when the Congress provided $10.5 million? How much of the $10.5 million will be applied against the new inspectors and what are you going to do with the remaining funds?

Mr. WEISE. Mr. Chairman, obviously I know, having just returned from the Southwest border, how important these additional Customs officers and Customs inspectors are to that region. I would try to answer that question without dwelling on the past so much but letting you know that notwithstanding the fact that we are facing budgetary cuts and FTE cuts across the Customs Service in the neighborhood of 700 over the course of the next 2½ years, notwithstanding that we are going to place a full 300 inspectors down at the Southwest border. We are not going to be able to get them there quite as quickly as you would have liked, and I recognize that the money was put forth in a previous budget that preceded my arrival.

I can tell you that through the course of the discussions that took place before my arrival and since my arrival, Secretary Bentsen has worked hard with the Office of Management and Budget to indicate that this was such an important initiative that we needed to be creative in finding a way to get this done. What we are hoping to do to put 200 down there by the end of this fiscal year. So it would be 150 out of S&E, and 50 out of the COBRA fund to try to just do it as quickly as we can. The remaining 100 probably will not be available until the next fiscal year, and we can only do that

as we free up through attrition additional resources from around the country. As soon as we can do that, the additional 100 inspectors will be put down in the Southwest border. I recognize that is not as quick as perhaps you would have liked but to be able to accomplish 300 additional staffing at a time when we are reducing staffing throughout the Customs Service and throughout the Government I think is an accomplishment, and I hope you know we are working in good faith to try to get the people down there.

Senator DECONCINI. I think it is, too. In your 1994 budget, you don't have the funds for those 200. How are you going to budget those?

Mr. WEISE. It is my understanding that we do have the funds at this point. We are going to put the 200 down there, 150 out of S&E plus 50 out of the COBRA this year. For the additional 100, we are hoping that through attrition, as we lose people as they leave the Customs Service, that we are going to free up sufficient resources that we can then add the additional 100 in fiscal year 1994.

Senator DECONCINI. Maybe you can supply me some documentation because I think your 1994 budget only calls for 100 of those in there. And you say you are going to do 200, which I am very encouraged.

Mr. WEISE. We will get that for the record.

[The information follows:]

THREE HUNDRED POSITIONS ON THE SOUTHWEST BORDER

As you have pointed out, funding was provided in fiscal year 1993 to hire 300 new inspectional personnel on the Southwest border. However, the administration has now recommended that these 300 positions be hired over the two fiscal years (1993 and 1994).

In fiscal year 1993, Customs will fill at least 150 of the new positions from the salaries and expenses appropriation. In addition, Customs will use COBRA funding to hire at least 50 new inspectional personnel.

In fiscal year 1994, Customs proposes to fill 100 additional positions from the salaries and expenses appropriation.

As you can see from the following table, over the course of two fiscal years, and through the use of S&E and COBRA funding, we will add at least 300 new inspectional personnel to the Southwest border.

RECAP OF RESOURCES AVAILABLE FOR 300 SOUTHWEST BORDER POSITIONS FOR FISCAL YEAR 1994

	Positions	Amount
Resources provided in fiscal year 1993 appropriation	300	$10,500,000
Adjusted by President's fiscal year 1994 budget	−150	.....
Revised level	150	10,500,000
Nonrecurring cost from hiring, equipping, and training 150 positions in fiscal year 1993	.....	−2,879,000
Adjusted base level in fiscal year 1994	150	7,621,000
Cost for 100 additional positions in fiscal year 1994	+100	+5,316,000
Total resources available for Southwest Border Initiative in fiscal year 1994 S&E budget	250	12,937,000
Positions to be funded from COBRA user fees	+50	+2,588,000
Total new Southwest border positions	300	15,525,000

REPROGRAMMING FOR PORTION OF $10.5 MILLION

Senator DECONCINI. What happened to the rest of the money of the $10.5 million that we did appropriate for this thing that you are not spending? Does anybody know?

Mr. WEISE. We are in the process of preparing a letter to seek some reprogramming for that additional money. It should be coming to you in the near term.

Senator DECONCINI. You don't know where you are going to reprogram it for?

Mr. WEISE. We have some specific initiatives that will be set forth in a letter. We are in the process of finalizing that letter. I think that will be coming up hopefully within the next week or two. It will be at the Department shortly and we will try to get the necessary concurrences on that as quickly as possible.

SERBIAN SANCTIONS

Senator DECONCINI. Let me turn to another subject. Earlier this year we were notified that Customs planned to send 10 full-time inspectors to former Yugoslavia, particularly to enforce the sanctions against Serbian Montenegro. At the time, you expected that the activity would cost $600,000. Recently, I received another letter from Treasury advising me that the number of Customs inspectors is now 20 and it is going to be $1.2 million. I support this effort having been over there and you are indeed contributing to the U.N. sanctions in a very, very important way.

At the beginning of the year, I instructed Treasury to work on the State Department to get some reimbursements. Can you tell us if that is going to come about? Have you had any involvement with the Secretary or does Secretary Bentsen feel that it is worth talking to the Secretary? I can't understand why the State Department will not reimburse you other than they do not have the money but it is obviously an obligation of the State Department.

Mr. WEISE. Yes, Mr. Chairman; I will respond briefly to that and perhaps you may want to ask Mr. Simpson from the Department if he would like to further elaborate. We do believe this is an important program. The program started with an initial 10 inspectors, as you indicated, and we now have committed an additional 17 so that there will be a total of 27 inspectors. We were able to cover the first 10. It was tight. We had to reallocate some resources to do so.

We have had a series of meetings under the auspices of the Department with the State Department to try to get them to try to cover the cost of these additional inspectors. To my knowledge that has been unsuccessful. Most of those meetings took place before my arrival. But with regard to the additional 17 inspectors, it would roughly cost $2.2 million. We have an arrangement with the Department that we would cover $1.2 million of it. We have sought reprogramming requests to do that and the Department has given us a commitment that they would cover the additional $1 million. We are still in the process of trying to arrange that payment. It has not taken place but we do have a commitment that it will take place.

Senator DECONCINI. Mr. Simpson, is that the best deal that Treasury can do?

Mr. SIMPSON. We got a pretty good deal considering we were dealing with the State Department and we always seem to suffer when we negotiate with the State Department. They put up over $6 million of their own money for sanctions mission assistance which I think was a pretty good contribution.

Senator DECONCINI. Excuse me, it is their mission. Why shouldn't they put it all up?

Mr. SIMPSON. Well, it is the administration's mission. Each of us has a role. The Treasury Department has a role that is a primary role as well.

Senator DECONCINI. Wait a minute. Are you telling me that Customs law enforcement to enforce our Customs law is a mission for Customs overseas to employ and enforce sanctions? Is that a mission of Treasury?

Mr. SIMPSON. The U.S. Government has this mission and I think it is a mission that you have suggested you agree we should take on.

Senator DECONCINI. I agree that our Government should take on this mission but I feel that the State Department should take it on. Just as if we did use ground troops or air troops in Bosnia-Hercegovina, it is not going to be Treasury or FBI that should bear the cost of that and expense of that, it ought to be Department of Defense.

Mr. SIMPSON. Each department can make unique contributions to this effort. In terms of sanctions enforcement, the Customs Service and the Treasury Department actually have the best expertise. We know more about this than the State Department does. So it is we who are best situated to make this particular contribution to the administration's effort, to the Government's effort. We are doing the best we can. We have asked for as much as we can get from State Department. Obviously, they will have to be shouldering a part of this load themselves and this was a demand on their resources that they had not expected. But we think that we have gotten as much cooperation from the State Department as their limited resources will allow them to offer. We will do the best we can to shoulder our part of this burden with the resources we have.

Senator DECONCINI. Well I'll tell you, Mr. Simpson, that is a pretty weak answer from my perspective. I have the State Department budget; I would certainly love it if agencies would pick up some of that. But it seems to me that you are totally acquiescing and giving up what is important to your department here because you say you got the best you could. How far can you go? Can't you go to OMB? Can't you go to the Secretary level? Can't you say "Well, wait a minute, Mr. Christopher, this is your job. We are going to help you here. We are going to use our expertise but you ought to pay for it. We will go and help you get OMB to add it into a supplemental but why should we take it out of our other enforcement, our other obligations because we want to be part of the administration."

Sure, you are part of the administration but it seems like somebody has to stand up for Treasury. It is discouraging to hear you, as the advocate for it, saying "Oh well, we have got the best we

could out of it." It just seems to me that is a weak position, but that is just my opinion.

EXECUTIVE ORDER EFFECT ON THE AIR PROGRAM

Anyway, Mr. Commissioner, your fiscal year 1994 budget also proposes to reduce the aviation program by 25 positions. When the Customs air interdiction strategy was formulated Customs identified a need for 960 FTE staffing level to fully support the various interdiction requirements including those of Central and South American in support of the P–3's. Can you tell us what your current FTE level is and will any of the 177 reduction that I think you are going to tell me about in 1993 be taken out of this program?

Mr. WEISE. Yes, Mr. Chairman; we will be having to reduce some FTE's there. I do not think it is going to be a significant reduction. I do not have the numbers right at my fingertips, but I will have them shortly. My recollection is that we will be taking about 13 positions out of the aviation program from fiscal year 1994. We made a conscious effort to hold pilot slots harmless. Obviously, we would prefer to have all those resources but we feel that we can maintain the mission and the program without fundamentally weakening them. We can provide for the record, obviously, the specific details in terms of numbers.

[The information follows:]

AIR PROGRAM FTE CUTS

The Air Program currently has 969 employees on board. We estimate that these employees will use 960 FTE in fiscal year 1993.

The Air Program will lose 9 FTE in fiscal year 1993, in conformance with the President's Executive Order. In fiscal year 1994, the Air Program will lose an additional 13 FTE. But as I said, my long-term goal is to reduce support positions instead of line positions. My success depends, to a great extent, on Customs being given the flexibility to make organizational changes, however.

INSPECTOR COMPENSATION LEGISLATION

Senator DECONCINI. I am very concerned, Commissioner, about the administration's budget proposal that has the potential to drastically impact on the Nation's ability to battle the interdiction of drugs along the border. The provision that concerns me most is the reform of Customs inspectors and canine enforcement officers' overtime that they should be entitled to. The administration is proposing to reform the overtime and use the $18 million in savings toward the deficit. I have introduced legislation to change the overtime system for Customs inspectors and also provide for a reasonable compensation package. This legislation closely follows this recommendation of a Customs study dated 1991. Have you had an opportunity to look at this at all, Commissioner, and can you support the Customs recommendations, and do you think anything can be done to reverse the administration's attack on these overtime funds? I would think this would be very demoralizing to the inspectors and canine officers, but maybe not.

Mr. WEISE. Mr. Chairman, I have been very much involved in this issue even before I became Commissioner of Customs. My previous life in the Ways and Means Committee with Congressman Pickle was very much involved in this initiative. Although I was on the Trade Subcommittee rather than Oversight, I worked very dili-

gently with that subcommittee to ensure that our inspectors were treated fairly. I have to be somewhat cautious here because the official administration position was set forth by OMB, but we in the Customs Service and in the Treasury Department expended an awful lot of resources to try to turn them around before that official position was put forth. We emphasized how inequitable that would be to Customs officers. Even though a lot of us would agree that the 1911 statute needed some reform, I don't think there was any consensus that we ought to do so in a way that would harm the inspectors that are out there in the front lines doing the work.

Notwithstanding the official administration position that we should take this $18 million away, I was pleased to see that the bill that was reported out of the Ways and Means Committee and ultimately passed the House in a good-faith effort to try to restore some equity to the inspectors. It is not everything that is in your bill but I think it attempts to restore the $18 million that was taken away through the 1911 reform by putting back a number of specific benefits to the inspectors. It is not everything they are looking for but I personally believe it is much better than what OMB was advocating there. I am hoping that when it proceeds through the Senate that we can work to ensure that the inspectors are treated fairly and equitably as they deserve to be.

VESSEL REPLACEMENT PROGRAM

Senator DECONCINI. Let me turn to the marine assets of Customs. In 1993, this committee provided $5.7 million for the second phase of procurement and we were told then that they would like to replace 20 percent of the fleet each year. This would guarantee a 5-year replacement cycle for the entire fleet which would cost approximately $3 million per year after the first initial year. There are no funds I take it in fiscal year 1994 for that and I wonder if there has been any reassessment of the marine asset program completely as to scaling it back or exactly what are the needs. It used to be we were able to generously fund this program and it has had some great effects. There have been a great number of boats that have been retired I understand and I wonder if somebody is on top of this to reassess the present need of the whole program and how many boats you need and then about this replacement effort.

Mr. WEISE. Mr. Chairman, yes, indeed. We are not looking to try to diminish our commitment to the marine program. We obviously are facing some tight fiscal constraints right now but I can provide for you for the record some of the detailed expenditures that we have committed to in terms of replacing our fleet. We are making the effort to try over time, 30 percent in this first year, to make those commitments.

Senator DECONCINI. There will not be any in 1994?

Mr. WEISE. We do not have any particular funds for fiscal year 1994.

Senator DECONCINI. No money for 1994. What does that do to your fleet?

Mr. WEISE. Mr. Pothier will respond.

Mr. POTHIER. Our approach now will have to be to extend the useful life of the vessels that we have on hand. We are bringing on a relatively large number of new utility vessels this year. We

have about $3 million remaining, which we will focus on the blue water vessels that we use for undercover operations. There are funds this year as well for these efforts.

Senator DECONCINI. What would it cost in your judgment to continue our pattern if we did fund it?

Mr. POTHIER. I believe we had identified $5 million for fiscal year 1994.

[The information follows:]

DETAILED EXPENDITURES FOR VESSEL PROCUREMENTS

The National Marine Strategy calls for the replacement of the marine fleet during the next 5 years, with 30 percent replacement in the first year.

Congress appropriated $4.5 million for new vessels in fiscal year 1992. The funds were released on October 8, 1992, and are being used to replace utility and interceptor vessels:

A contract has been awarded for the delivery of 45 fast utility vessels (35 Deep-V vessels and 10 catamarans). The fast utility vessels will be used to replace present utility vessels and some interceptors. This first stage of the vessel replacement project will replace 30 percent of Customs operational fleet, which is 150 vessels.

As of June 7, 1993, 25 Fountain, 6 Offshore Yacht, and 4 Hydra Tech boats have been delivered and are being transferred to the appropriate SAC offices.

Congress appropriated $5.7 million for new vessels in fiscal year 1993. This second stage of the vessel replacement project involves the procurement of 5 to 10 long-range fast utility and 4 blue water vessels. The long-range utility vessel Request for Proposal is currently undergoing a summary technical and cost evaluation. A contract award is expected prior to September 30, 1993. The completion of the long-range fast utility vessel purchase will bring the utility/long-range fast utility vessel mix of the total fleet (85/35) up-to-date.

The Office of Air and Marine Interdiction is currently identifying blue water vessels due for replacement. When this task is completed, a solicitation for the vessels will be initiated.

AIR FACILITIES CONSTRUCTION

Senator DECONCINI. Thank you. Mr. Commissioner, maybe Mr. Pothier can answer this, too. In fiscal year 1992 the committee provided $12.1 million for Customs to undertake facility renovation construction activities in various air facilities. They included Jacksonville, FL, Air Branch, Haiti, the Miami, FL, Air Branch, Corpus Christi Surveillance Center. During the year Customs requested permission to shift from the A&E funds earmarked for Miami to New Orleans and this authority was approved by our committee. I see no funds have been included in your fiscal year 1994 budget request to complete these facility upgrades. Can you identify for the committee your needs at Corpus Christi and Miami and how you are going to deal with these, or do you just put them off?

Mr. WEISE. Well, if you need elaboration, I will have Mr. Pothier respond. But, briefly, the Customs Service did request funding in our fiscal year 1994 budget for those particular initiatives and it was not approved. We do however have funding for architectural engineering design. We can begin the process for Corpus Christi. It is ongoing. A&E for New Orleans will begin as soon as Customs receives final site approval from Belle Chase at NAS. The design in Corpus Christi will be complete this calendar year. Construction could begin in 1994 if funding were available but we do not now have it.

Senator DECONCINI. You did not ask for any in 1994?

Mr. WEISE. We did but it was not approved.

Senator DECONCINI. You did ask for it but you did not get it?

Mr. WEISE. That is correct.

Senator DECONCINI. How much did you ask for? Do you know?

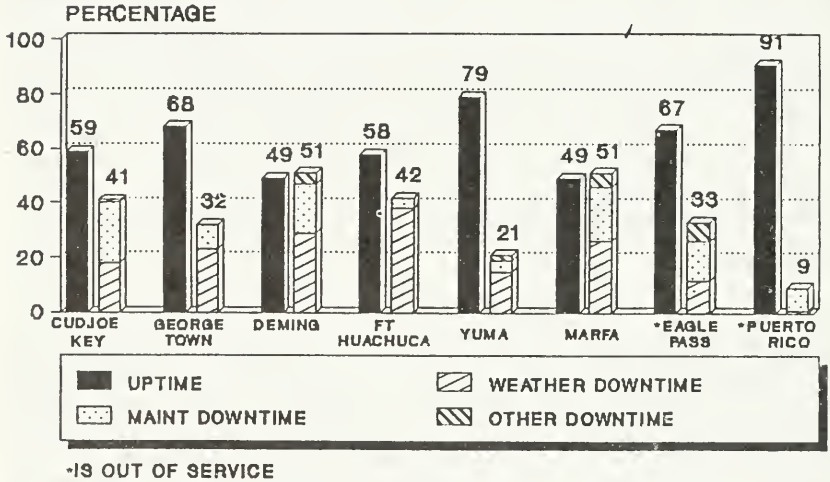
Mr. POTHIER. We asked for $17 million, $11 million for New Orleans and $6 million for Corpus Christi.

Senator DECONCINI. We are into the Aerostats. For the record, can you provide us with up and down time of each of the Aerostats operating along the border including the Caribbean?

Mr. WEISE. Yes, Senator; we will supply that for the record.

[The information follows:]

PERCENTAGE OF
AEROSTAT UPTIME vs DOWNTIME
FY 93 THRU MARCH



*IS OUT OF SERVICE

AEROSTATS

Senator DECONCINI. Can you give us an update status report on the Aerostats and tell us which ones are operating and which are down and what plans are in the works to get all the Aerostats operational and when you expect that they will be all operational subject obviously to routine maintenance? There has been a lot of concern expressed about the Air Force plan to procure new Aerostats. Has Customs worked with the Air Force? Do you have any concerns that these Aerostats may be so downsized as to not be as effective as the present ones?

Mr. POTHIER. We have expressed our concerns to the Department of Defense that they are producing smaller Aerostats and we were concerned that there would be less radar footprint as a result. The Department of Defense has made some adjustments. The new Aerostats in the gulf, for example, now go up to 15,000 feet above ground level. At our request, they have agreed to put larger radar onboard which would give us some ability at least to sustain equiv-

alent coverage. And the one at Madagorda is now being tested so we should have some indication.

Senator DECONCINI. Do you think that is how it is going to work out?

Mr. POTHIER. We think that is about the best we can do, sir.

P–3'S

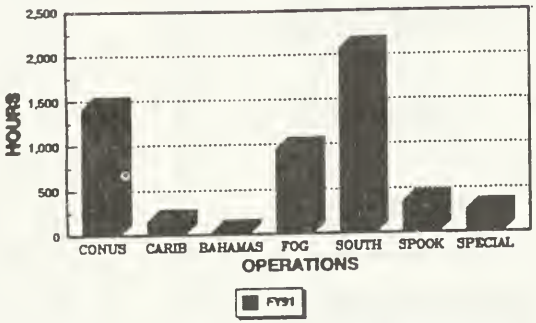
Senator DECONCINI. The committee has provided funding for the Customs for P–3 AEW and I understand that is delivered already to Customs. Is that correct, Mr. Pothier?

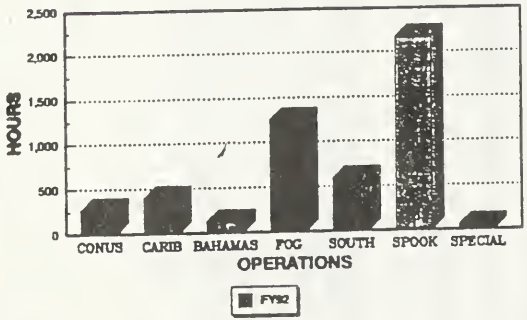
Mr. POTHIER. Yes; it is. It should be operational in about a week.

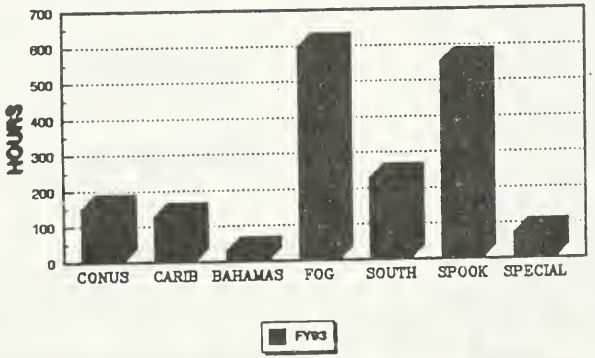
Senator DECONCINI. Can you provide to the committee the percentage of time each of the P–3 AEW's and P–3 Slicks are devoted to surveillance missions. I would just like to have that for the record.

[The information follows:]

AIRCRAFT USE BY OPERATION
SURVEILLANCE SUPPORT CENTER







FY93 IS OCT 92 THROUGH JAN 93

OPERATIONS AREA DEFINITIONS

SOUTH OPS:	Foreign based missions, conducted over the Pacific or Caribbean, flown in direct support of the Mexican initiative. An average of 47 flight hours per month have been flown in support of these missions since the beginning of FY 92.
FOG OPS:	CONUS (Continental U.S.) based missions in direct support of the Mexican Initiative and usually accompanied by a Mexican representative. Operating areas are the Gulf of Mexico, Caribbean, and Pacific. The over flight of Mexico is for transit purposes only.
SPOOK OPS:	Foreign based missions in direct support of SOUTHCOM Initiatives. These are mostly conducted over South or Central America with host nation participation. An average of 152.2 flight hours per month have been flown in support of these missions since the beginning of FY 92.
SPECIAL OPS:	CONUS or foreign based missions that do not directly fall into other categories. Normally covers missions operating over Central America not in direct support of the Mexican Initiative.
CONUS OPS:	CONUS based flights in support of Customs border operations.
CARIBBEAN OPS:	CONUS or foreign based missions concentrated in the Caribbean Basin not in support of other categories.
BAHAMA OPS:	CONUS or foreign based missions concentrated in the Bahamian area and not in support of other categories. Usually in support of OPBAT.

FULL-TIME P–3 AEW'S FOR SOUTHWEST BORDER

Senator DECONCINI. Delivery of those P–3 AEW's, I understand one of these assets will be devoted to the Southwest border on a full-time basis. Is that still the plan of Customs?

Mr. WEISE. Senator, we are going to do our best to get a full-time commitment. One complication is that we are in the process of working with the Navy. The Navy is looking to use one of our P–3 AEW's in an experimental program to test some equipment which we have consulted with you on. That is going to begin in the near term, probably soon after we get the fourth P–3 AEW. So we are going to still do significantly more border missions than we were able to do before, but we still have to recognize that during the times the Navy has their P–3 AEW that we are loaning to them over the course of the next 2 years, we will only have three in operation for Customs. So we still need to make adjustments.

Senator DECONCINI. Can that Navy experiment be in conjunction with the drug interdiction mission at all or is that totally different?

Mr. POTHIER. No; this experiment will require some interface between our AEW and Navy Aegis vessels to be operating off the west and east coasts.

Senator DECONCINI. Perhaps a 6-month period of time?

Mr. POTHIER. Actually, the program extends over 2½ years on a continuing but not continuous basis. And so there are 3 weeks and 3 months and so on stretches.

Senator DECONCINI. Is there a schedule for that?

Mr. POTHIER. Yes, sir; the Navy has provided it.

Mr. WEISE. We will be, in effect, sharing the resource over that 2½-year period where they will have it part of the time and we will have it part of the time. We will have it at least one-half of the time, I think.

Senator DECONCINI. Can we see that schedule?

Mr. WEISE. Yes.

Senator DECONCINI. Who's idea was that? The Navy's?

Mr. WEISE. Yes; that was the Navy's. I can assure you it was not ours. [Laughter.]

Senator DECONCINI. Who made that decision to do that? Was that just ordered down?

Mr. POTHIER. There is some interest on the House side as well, Senator, with having this test conducted. The Navy approached us, and the original test was only to extend for a period of less than 1 year and it has grown incrementally. But since this is a continuing rather than continuous test, it appears we can do it without too much impact.

Mr. WEISE. Senator, I asked a number of questions myself. It seemed unusual since we had an air fleet of eight P–3's and the Navy has quite a few more planes than that as to why it was necessary. I have been informed, and I think Mr. Bradley of your staff is the one I talked to about this as well, that we have a unique aircraft and only the P–3 AEW that is in our fleet is capable of performing this test. It was a surprise to me but that is what a number of experts including Mr. Pothier and Mr. Bradley have informed me. So obviously this is an important test for the Department of Defense and we have, as you saw when you and I traveled together to Panama, some good cooperative relations in working together and we wanted to see if we could provide some assistance to them as they have for us.

ADVANCED SYNTHETIC APERTURE RADAR SYSTEMS [ASARS] EQUIPMENT

Senator DECONCINI. During fiscal year 1992 and 1993, Customs requested permission to reprogram unobligated funds from O&M for installation of ASARS equipment on a P–3 aircraft and the committee gave Customs authority, I think, for up to $900,000. Can you give us an update report on the ASARS Program and tell us whether or not you received and reviewed the evaluation of the program? Will this be used primarily in Central and South America for this year and next year if it is operational?

Mr. WEISE. Mr. Chairman, yes, we have been looking at that. It is my understanding that we have looked at the ASARS and we actually have looked at a smaller, more modest version that we found to be perhaps even more useful to our particular mission. It clearly would be useful in Central and South America but also would be potentially useful to our mission along the border as well. So we are seeing some very positive results of that study. It is not the size that we started with, it is actually a little smaller version of

the one we initially looked at that we think is perhaps even more cost effective. So it looks like the program has been a good positive test result.

Senator DECONCINI. Do you have any estimate on the cost of this one?

Mr. POTHIER. The mini-ASARS that we looked at cost about $2.5 million a copy. The first prototype system would be a nonrecurring $2 million and that will enable us to couple those ASARS with some optical sensors that we would want to use on the Southwest border.

Senator DECONCINI. And there is over $8 million there unobligated and available for that?

Mr. POTHIER. That is right, Senator.

Senator DECONCINI. Are you going to do more than one?

Mr. WEISE. This funding level would enable us to put them on more of our aircraft than we originally hoped.

Senator DECONCINI. Is that your intent to do that? Do you think it is that good? Are you satisfied with it?

Mr. WEISE. Certainly the experiments or the program testing that has been done thus far is very encouraging and obviously once we start putting them physically on the aircraft and start using them I think we would hope to expand to others.

Senator DECONCINI. If for any reason they could not be or were not used in Central or South America, is there any legal problem using it along our border?

Mr. WEISE. Not that I am aware of, no.

Mr. POTHIER. There would be none.

Senator DECONCINI. I would like to be sure of that statement. You have had legal counsel review that fact of whatever our laws are of the ability of this equipment to penetrate and look into private properties of people? There is no legal question?

Mr. WEISE. We will get a definitive legal ruling on that and get it to you, Senator. But based on preliminary analysis, we do not see a problem.

O&M UNOBLIGATED BALANCE

Senator DECONCINI. It is very encouraging. Fiscal year 1994 you are requesting $83 million for operation and maintenance activity of the Customs Air and Marine Program. Of this amount, $37 million is to be derived from unobligated balances. As you can imagine, I am very concerned about the availability of these unobligated balances through fiscal year 1992 and I want you to tell me what steps Customs is taking to make sure proper accounting controls and tracking of inter-agency agreements are in place to avoid a recurrence of the problem identified during fiscal year 1992 with respect to the O&M account.

Mr. WEISE. Mr. Chairman, I was as concerned as you were about the problems that have occurred in the past and we did have an outside consultant who came in and took a long hard look at it. Based on all the information that I have received, we do have a financial improvement plan and I would be happy to provide for the record all the specific details of that. I might add, that we have learned a great deal from our mistakes in the past and that we do

have a specific program that is in place. I will provide all the details of that for the record.

[The information follows:]

PLAN FOR FINANCIAL MANAGEMENT IMPROVEMENT
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ISSUE/PROBLEM	ACTION	RESPONSIBLE OFFICIAL	DUE DATE	STATUS
The level of documentation on the Interagency Agreement (I/A) is inconsistent and incomplete.	NFC and Air Ops will develop and implement procedures regarding minimum documentation standards for I/A's.	Pharis Junkins Golden Powell	2/28/93	Completed. Pearson: Completed 2/26/93 Air Ops, Procurement, and Budget updates have been incorporated into procedures. Golden: SOP issued 4/28/93.
Information on the I/A should agree with the information entered into the AIMS general ledger. There are inconsistencies in the information.	NFC will develop and implement procedures to reference the information between FFS and the I/A's.	Pharis Junkins Golden Powell	6/30/93	Completed. Junkins: This is included as part of the procedures in Tasking #1 above. Golden: See tasking #1.
	After implementation quarterly reconciliation required.	Pharis/Junkins Golden/Powell	On-Going	Pharis: Reconciliation procedures in development. Target for initial documented quarterly reconcilement is July 15 (covers to 6/30).
AIMS does not maintain a cross reference between the interagency receivable and vendor contract obligations and subsequent payment.	NFC and Air Ops will develop and implement procedures for cross referencing I/A's and for comparison of expenses and requests for reimbursements and cash receipts with requests for reimbursements.	Pharis Junkins Golden Powell Garrison	10/1/93	Interim procedures completed. Pearson: Register completed. Garrison: Requirements analysis underway. Junkins: Included as part of procedures in # 1 above. Golden: SOP issued 4/28/93.
I/A's should have been entered into AIMS separately. Currently some are consolidated which makes it more difficult to identify each agreement.	NFC will develop and implement procedures for maintaining separate accounts for each I/A.	Pharis	2/19/93	Complete. Register was revised based on 2/12/93 meeting and forwarded to all attendees. Comments were incorporated.

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ISSUE/PROBLEM	ACTION	RESPONSIBLE OFFICIAL	DUE DATE	STATUS
All new I/A's should be recorded to the proper fund. However, several I/As in the amount of $131,000 were recorded to the "M Fund" (annual fund).	NFC will develop and implement procedures for recording I/A's.	Pharis	2/28/93	Completed 2/26/93. Review was included in procedures to prevent this from occurring.
	Monitor procedures.	Pharis	On-going	Three new agreements have been added to O&M this fiscal year ($220,000) Activity review to be included in quarterly reconciliation and next internal compliance review.
Customs had difficulty identifying the population of I/A's and knowledgeable personnel regarding the I/A's. I/A files should contain all transactions and decisions made relating to the I/A. A common data base should be maintained for tracking outstanding I/A's. A person should be identified to periodically analyze and reconcile register contents.	NFC and Air Ops will develop and implement a register to be shared by program officers and NFC and procedures for monitoring I/A's.	Pharis Junkins Golden Powell	6/30/93	Completed. Golden: Register in place. Second monthly update in process. Junkins: Register received & reviewed by program officer; will continue on monthly basis.
	Monitor I/A procedures.	Pharis	Ongoing	NFC will obtain responses from each program officer beginning with June register.
Expense should be charged to the correct fund. Services relating to labor hours for two employees assigned to forest service fire fighting duty were charged to the S&E Fund. The appropriation fund documented on the request indicated the expense should have been reimbursed to O&M.	NFC will record the recommended journal entry to correct the incorrectly posted expense.	Pharis	12/31/92	Completed 3/15/93.

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ISSUE/PROBLEM	ACTION	RESPONSIBLE OFFICIAL	DUE DATE	STATUS
Customs is recognizing revenue and recording a receivable upon receiving the interagency agreements. Customs should recognize budgetary authority for I/A's signed.	NFC will adjust AIMS for identified incorrect revenue and receivable entries as of 9/30/92.	Pearson	12/31/92 Revised to 4/30/93 5/15/93 6/30/93	Review in process. Request new due date of 7/31/93. Budget Division to review posting options prior to adjustment entry to ensure no difference will be created between the Treasury Consolidated Statement and Budget Plan (prior year activity)
	NFC will develop and implement procedure to ensure receivable and revenue related to I/A are recorded as the goods and/or services are delivered/performed.	Pharis	2/28/93	Completed 2/26/93. New procedures implemented.
	Monitor procedures.	Pharis	On-Going	Review of activity to be included in next and future quarterly internal compliance reviews.
Customs has not been reimbursed for all requests for reimbursement issued. Additionally, requests for reimbursement are not always issued for all reimbursable costs.	NFC will develop procedures for an integrated billing system which prevents duplicate billings and follows up on outstanding requests for reimbursement.	Pharis	3/31/93	Completed 2/26/93.
	Monitor procedures.	Pharis	Ongoing	Review of activity to be included in next and subsequent quarterly compliance reviews and quarterly reconciliation.

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ISSUE/PROBLEM	ACTION	RESPONSIBLE OFFICIAL	DUE DATE	STATUS
Customs has invoiced and collected cash without a receivable being recorded and services performed.	NFC will develop procedures to ensure the receivable and related revenue are recorded after the service is performed and prior to invoicing.	Pharis	12/31/92	Completed 2/26/93. Incorporated as part of operating procedures.
	Monitor procedures.	Pharis	On-Going	Review of activity to be included in next and subsequent quarterly compliance reviews and quarterly reconciliation.
There should be better control over the assignment of account process codes (APC). At times the APC stipulated by the I/A was not the APC entered in CAMIS. In addition, it appears the program officers have not been trained in the proper usage of APCs.	NFC will adjust AIMS for identified incorrect reimbursable/nonreimbursable expenses and bill agencies for previously unreimbursed expenses.	Garrison	12/31/92 Revised to 5/15/93 6/30/93	Request revised due date of 7/31/93. Budget Division to review adjustments prior to posting to preclude any differences with Treasury Consolidated Statement.
	Air Ops will develop and implement procedures to process I/A's and assign APCs.	Junkins	12/31/92	Completed. Included in procedures developed in Tasking # 1.

ISSUE/PROBLEM	ACTION	RESPONSIBLE OFFICIAL	DUE DATE	STATUS
Customs does not maintain documents in a manner conducive to retrieval. Certain supporting documentation related to I/A expenses could not be located.	NFC and Air Ops will review procedures for document storage and retention and revise as appropriate.	Pearson Junkins Golden	3/31/93 Revised to 4/9/93	Completed. Pearson: Document storage & retention reflected in procedures implemented 2/26/93. Junkins: Guidance included in Interagency SOP. Golden: SOP issued 4/28/93.
Most obligations are not recorded until the invoice is received from the vendor and just prior to payment. An obligation should be recorded when the purchase order is issued.	NFC will develop and implement procedures to ensure timely recording of obligations.	Pearson	12/31/92	Completed. Procedures implemented. Identification of all obligating documents via Register.
Expenses should not exceed the amount of the contract.	NFC and Air Ops will develop and implement procedure for monitoring contracts and identifying potential overages in order to obtain contract modifications to enable the O&M Fund to be reimbursed.	Pearson Junkins Golden	12/31/92 Revised to 4/9/93	Completed. Pearson: NFC procedures developed and implemented 2/26/93. Procedures of NFC and Air Ops should quickly identify overages. Junkins: Included as part of procedures being developed in Tasking #1. Golden: SOP issued 4/28/93.
Interest charges and late payment penalties in the amount of $8,778 were incurred by Customs.	NFC will review procedures for processing O&M Fund invoices to minimize Prompt Payment interest.	Pharis	3/31/93 Revised to On-Going	In addition to established invoice payment procedures, O&M progress payment invoices on contracts are being forwarded to HQ Procurement for determination of interest payment exemption for those it previously had not indicated as "no interest".

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ISSUE/PROBLEM	ACTION	RESPONSIBLE OFFICIAL	DUE DATE	STATUS
There were three I/A's established totaling $4,832,099 to refund Customs for costs Customs had previously paid for services provided to Customs. There is a question regarding the legality of this type of transaction.	NFC will obtain legal opinion and establish a contingency reserve. If not a legal transaction, NFC will refund the appropriate Agency and establish procedures to prevent similar transactions from occurring.	Pearson	12/31/92	Completed. Legal opinion obtained by KPMG and incorporated in their report 10/30/92.
Accounts payable are not recorded at the time goods and services are received.	NFC will utilize CFO procedures in preparation of financial statements.	Pharis	3/31/93 Revised to On-Going	Completed. O&M activity will be included in Year End Procedures Directive. In addition, review of activity will be included in next and subsequent internal compliance reviews and quarterly reconciliations.

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ISSUE/PROBLEM	ACTION	RESPONSIBLE OFFICIAL	DUE DATE	STATUS
Procedures are not established to process contract amendments. As a result situations occur where contracts are not recorded or recorded inaccurately and therefore, adequate support is not maintained for the cash disbursement.	Office of Procurement will develop and implement procedures to process contract modifications.	Golden	3/31/93 **Revised to** 4/9/93	Completed. Golden: SOP issued 4/28/93.
Field offices are not reviewing the "Open Obligations Report", distributed quarterly by NFC, and requesting timely deobligation.	Additional emphasis will be given to field offices and their actions will be monitored on a regular basis with management reports. NFC to develop & implement procedures for negative responses.	Pharis Junkins Golden Garrison OM	On-going **Revised to** 4/30/93 5/31/93	During April, field obtained ability to extract basic open obligation information from AIMS. Current testing of enhanced report capabilities has identified system problems which may cause the enhanced version to be moved back into development.
ARRS does not distinguish between an "F" code, which symbolizes a final billing and deobligates the remaining funds, and a "P" code, which symbolizes a partial billing and does not deobligate the remaining funds.	Modify ARRS to distinguish between "F" & "P" codes.	Garrison Pharis Golden	6/30/93	See block above.
	Implement procedures for contracting officer to review contracts before "F" billing and take action to close out.	Golden Pharis Garrison	3/15/93	Completed. Golden: SOP issued 4/28/93.

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ISSUE/PROBLEM	ACTION	RESPONSIBLE OFFICIAL	DUE DATE	STATUS
OMB Bulletin 91-07 requires all obligated balances outstanding after September 30 of the fifth fiscal year be canceled and the expired account closed. As of 9/30/91, there is $1,926,869 of obligations that should be canceled.	NFC will cancel "M" Fund obligations outstanding over five fiscal years.	Pharis	6/30/93	Awaiting Treasury guidance to ensure audit trail.
	Develop procedures to identify canceled obligations.	Pharis	TBD	Once guidance is received, procedures will be developed.
	Monitor procedures.	Pharis	On-Going	See above.
	NFC will monitor procedures to review "M" fund obligations at the end of each fiscal year to ensure compliance with OMB Bulletin 91-07.	Pharis	On-Going Revised to 9/30/93	At year end, unobligated balances are withdrawn via the 2108 report. This is an annual report.
The O&M Fund does not segregate and report equity in accordance with Title 2.	NFC will develop and implement procedures to segregate and report fund equity in accordance with Title 2.	Pharis Webster Mynsberge	3/31/93	Completed 10/1/92 with implementation of AIMS.
Customs was unable to provide reconciled detail to support the CAMIS balance 9/30/92 for the Unobligated balance.	NFC will develop and implement monthly procedures to reconcile the detail of unobligated fund.	Pharis	9/30/93	Pharis: Development in process.
AIMS is not currently utilized to track all balances and transactions that comprise the O&M Fund and not all entries are made on a timely basis.	Customs will develop a separate trial balance to track all O&M fund related activity until PCAS is implemented.	Pearson Webster	2/28/93	Completed 2/26/93. Pharis: Only reimbursements are being manually tracked. Other O&M balances are in FFS and no further action is required. Garrison: AIMS has nothing to report.
	Develop action plan to correct.	Pharis Webster	2/28/93	Operating procedures in place.

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ISSUE/PROBLEM	ACTION	RESPONSIBLE OFFICIAL	DUE DATE	STATUS
General ledger and budgetary accounts are not being properly utilized.	NFC will assign significant accounts to various O&M Fund personnel and will develop and implement procedures to monitor and reconcile activity throughout the year.	Pharis	12/31/92 Revised to On-Going	Completed. Assigned one full time accountant to O&M. One back-up has been designated.
The Treasury Financial Manual stipulates procedures to completing SF 220. These procedures, such as the appropriate line items to combine, are not being followed in completing SF 220 for the O&M fund.	NFC will develop and implement procedures to ensure proper completion of SF 220.	Diaforli	3/31/93	Completed 1/93. SF 220 submitted 1/31/93.
Refunds are due other Federal agencies based on bills submitted with no supporting invoices.	Prepare draft letter for legal opinion.	Pharis	3/15/93	Completed. Legal opinion obtained.
	Send letter to other Federal Agencies requesting them to review their records to support charges to them (negative confirmation).	Pharis	3/15/93 Revised to 6/15/93	Letters sent 3/8/93. Follow-up requests were sent 4/30/93. No agency has requested a refund through May 31.

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ISSUE/PROBLEM	ACTION	RESPONSIBLE OFFICIAL	DUE DATE	STATUS
KPMG recommended adjustments to various GL accounts for closed/open Interagency agreements due to lack of support and/or failure to record proper entries.	Determine proper GL account balances to be adjusted.	Garrison Pharis	4/15/93 Revised to 5/15/93 6/30/93	Pearson: Obtained workpapers from KPMG. Transaction codes to be developed to post to proper G/L accounts. Budget Division to review adjustments prior to posting. Request new due date of 7/31/93.
	Adjust balances.	Pearson Pharis Bear	4/30/93 Revised to 5/15/93 6/30/93	Pearson: Obtained workpapers from KPMG. Transaction codes to be developed to post to proper G/L accounts. Budget Division to review adjustments prior to posting. Request new due date of 7/31/93.
Obligations are not recorded in accordance with directive for Interagencies.	Update Directive for Interagencies.	Golden	4/30/93 Revised to 5/31/93	Golden: Draft in process. Also revising CF 236. The draft directive out for final comments on 6/1/93. CF 236 will not be revised until FY 94 per Andrea Wood.
	Develop action plan to resolve open issues.	Golden Pharis Junkins Garrison Powell	4/30/93 Revised to 5/15/93	Golden: In process. Garrison: AIMS has nothing to report.
Lack of Training.	Determine training requirements.	Junkins OM Pharis Powell Golden	3/31/93 Revised to 5/30/93	Golden: Budget officers need training. Pearson: NFC has trained O&M accountant regarding operating procedures.
	Implement training.	Junkins OM Pharis Powell Golden	On-going	Pharis: Back-up accountant to be trained by June 30, 1993.

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JOINT DEPARTMENTAL/CUSTOMS TASK FORCE PLAN

ISSUE/PROBLEM	ACTION	RESPONSIBLE OFFICIAL*	DUE DATE*	STATUS*
The new budget and account structure established by Congress for O&M does not facilitate understanding of the Air & Marine Program; is not conducive to production of comparable data from year to year; does not promote efficiency and simplicity of operations and reporting; and does not support preparation of timely and accurate financial information.	(A1) Customs should propose as soon as possible, but not later than in the FY 1995 budget, an account structure and appropriations language to establish the following two appropriations for the Operation and Maintenance, Air and Marine Interdiction Program: – Operation and Maintenance, Air and Marine Interdiction Program – Annual (with appropriations language providing no-year authority for procurement related activities) and – Customs Facilities, Construction, Improvements and Related Expenses – No-year.			
	(A2) Customs establish separate budget activities as well as internal controls within the proposed annual account for Air and Marine Interdiction Program to control, track, and report obligations by the program areas Congress desires to control further. Additionally, Customs request Category B apportionments be established for these program areas, thereby "fencing" off funds and making it an Anti-deficiency Act violation if exceeded.			

* Not available in time for inclusion in the record.

PLAN FOR FINANCIAL MANAGEMENT IMPROVEMENT
OPERATIONS AND MAINTENANCE PROGRAM
JOINT DEPARTMENTAL/CUSTOMS TASK FORCE PLAN

ISSUE/PROBLEM	ACTION	RESPONSIBLE OFFICIAL*	DUE DATE*	STATUS*
AIMS does not provide the level of accounting and program detail needed by the Air and Marine Interdiction Program. As a result, HQ and field offices continue to rely on APATS, a separate financial management system.	(B1) Customs Headquarters AIMS Division identify all valid user needs and system requirements of the Air and Marine Interdiction Program and establish a plan and timetable to meet those needs and requirements.			
	(B2) Customs Headquarters AIMS Division (i) review the capabilities of APATS and AIMS to determine the extent to which AIMS can satisfy program needs and (ii) identify duplication in the two financial management systems which can be eliminated.			
	(B3) Customs Headquarters AIMS Division determine whether APATS maintenance and inventory modules can be integrated into AIMS. (For example, there may be a way information logged into one system could be down-loaded into the other, saving considerable work hours.)			

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JOINT DEPARTMENTAL/CUSTOMS TASK FORCE PLAN

ISSUE/PROBLEM	ACTION	RESPONSIBLE OFFICIAL*	DUE DATE*	STATUS*
Customs has not identified APATS as a financial management system in its CFO Five Year Plan, Inventory of Financial Mgmt. Systems, as required by OMB Circular A-127.	(C1) Customs update its Inventory of Financial Management Systems listed in its CFO Five Year Financial Management Plan to include APATS.			
The program office and its field locations are not using their capability to enter commitment documents (CF-148s) directly into CLAS/AIMS. As a result, the financial information reflected in AIMS is not always complete and current.	(D1) Customs AIMS and Procurement staffs work jointly with Program staff to ensure Headquarters and field locations are fully aware of their capability to enter CF-148s directly into CLAS/AIMS.			
	(D2) Customs Procurement and Program staffs work jointly to ensure that procedures for entering CF-148s directly into CLAS/AIMS are well-defined, clarified as necessary, and that appropriate program staff receive the necessary training in this area.			
	(D3) Customs Headquarters and field locations commence entering CF-148s directly into CLAS/AIMS after training is completed.			

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OPERATIONS AND MAINTENANCE PROGRAM
JOINT DEPARTMENTAL/CUSTOMS TASK FORCE PLAN

ISSUE/PROBLEM	ACTION	RESPONSIBLE OFFICIAL*	DUE DATE*	STATUS*
Quarterly reconciliations of the official accounting records in AIMS are not being performed as required. Currently, AIMS does not provide the necessary accounting reports for the reconciliations to be accomplished.	(E1) Customs ensure that the necessary financial reports are made available in April 1993 and that the required reconciliations are performed at that time and continue to be performed as required.			
There is no one place (repository) where all information on reimbursable Interagency Agreements is maintained. As a result, the actual status of funds on I/As may not be known.	(F1) Customs ensure all user needs for adequately tracking I/As are identified.			
	(F2) Customs Headquarters AIMS Division determine the feasibility of incorporating I/A tracking (to include fund availability) into AIMS.			
	(F3) Headquarters Air and Marine Interdiction Program Office Budget Division be the central point for maintaining complete files on all Program reimbursable I/As. The file should at a minimum include: a copy of the I/A, copies of procurement documents (the funding sheets), invoice documents, and other information affecting the funding status and timeframe of the I/A.			

* Not available in time for inclusion in the record.

PLAN FOR FINANCIAL MANAGEMENT IMPROVEMENT
OPERATIONS AND MAINTENANCE PROGRAM
JOINT DEPARTMENTAL/CUSTOMS TASK FORCE PLAN

ISSUE/PROBLEM	ACTION	RESPONSIBLE OFFICIAL*	DUE DATE*	STATUS*
There is no one place (repository) where all information on reimbursable Interagency Agreements is maintained. As a result, the actual status of funds on I/As may not be known. (continued)	(F4) Headquarters Air and Marine Interdiction Program Office reconcile reimbursable I/A files to the tracking reports on a monthly basis.			
Timely closing of I/As is not being accomplished.	(G1) The Air and Marine Interdiction Program Office and the Office of Procurement jointly review the I/As and determine which are complete and may be closed out. For completed I/As (reimbursables) with remaining funding, proper documents should be issued to return the funding to the appropriate agency/General Fund.			
	(G2) The Assistant Commissioner (Management) ensure that specific responsibilities and procedures for timely closeout of I/As are incorporated into the I/A directive (CD 5220-014).			

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OPERATIONS AND MAINTENANCE PROGRAM
JOINT DEPARTMENTAL/CUSTOMS TASK FORCE PLAN

ISSUE/PROBLEM	ACTION	RESPONSIBLE OFFICIAL*	DUE DATE*	STATUS*
The NFC does not "log in" all financial documents upon receipt. A document may be lost and there is no way to determine receipt or loss unless it is resubmitted.	(I1) NFC review the feasibility of implementing a document tracking system to establish control over financial documents upon receipt.			
Too many duties are concentrated in the accountant that handles I/A transactions.	(H1) Customs ensure that accounting duties for I/As be performed by separate people to afford proper separation of duties.			
Field managers are not familiar with the formal requirements of Customs Management Controls Program.	(J1) Air and Marine Interdiction Program field managers be trained in Management Control concepts and requirements.			
There is no central point of contact within the program office of the Air and Marine Program for studies conducted on the program. Reviews and recommendations are not tracked and weaknesses are not being addressed.	(K1) The Air and Marine Interdiction Program assign a central point of contact to track reports, ensuring proper distribution of the reports within the program office and field locations, and recommendations to ensure weaknesses are addressed.			

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PLAN FOR FINANCIAL MANAGEMENT IMPROVEMENT
OPERATIONS AND MAINTENANCE PROGRAM
JOINT DEPARTMENTAL/CUSTOMS TASK FORCE PLAN

ISSUE/PROBLEM	ACTION	RESPONSIBLE OFFICIAL*	DUE DATE*	STATUS*
Guidance on financial mgmt., budget, and travel issues has not been updated to reflect the change to AIMS.	(L1) Customs guidance be updated to reflect use of AIMS.			
Field personnel are not kept informed of personnel changes or shifts in responsibility at the NFC.	(M1) NFC consider including personnel changes or shifts in responsibility in the "Indy Ledger" or other communications vehicles so that field personnel will be informed.			
Employees with Diners Club cards continue to receive the maximum allowable travel advance.	(N1) Customs ensure employees that are Diners Club Card holders receive the correct cash advance amount.			

* Not available in time for inclusion in the record.

UNOBLIGATED FUNDS

Senator DECONCINI. I'll tell you what troubles me, Mr. Commissioner—I think this Committee has been pretty generous to Customs. I am glad to do it and we will continue to work with you, but when Customs is sitting on $83 million or whatever it is, almost $100 million unobligated funds it is hard to understand. I just went through this with the IRS. I realize it is a great cushion for you when something comes up but it is awful hard for us to cut another agency's budget and then have one agency like yours or IRS have $92 million estimated in 1993 unobligated and $150 million for 1991 and 1992, and I just use them as other examples and yourselves here. There seems to be some problem here with management that we need to have a better handle on. I do not want to start managing Customs but I don't know what else to do. We appropriate these funds and then there is such a huge amount that I feel that it is not very good managing from our standpoint legislatively in appropriating these kinds of funds when there are those huge unobligated funds.

If I were you or your lieutenants there, I would think that would be great, nice to know that we have a cushion there because we have some emergency or something comes along. But to me it is also a target for deficit reduction from OMB and that may be where we should apply it, but I would rather apply it there, quite frankly, if that is our judgment to do that. I just give you that free and worthless advice.

Mr. WEISE. Thank you, Senator. I share your concerns and I assure you we are going to look into it very seriously.

SUBMITTED QUESTIONS

Senator DECONCINI. Commissioner, thank you very much. I am going to submit some other questions to you. We appreciate your appearing here today and look forward to working with you.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR DeCONCINI

SW BORDER POSITIONS IN FY 1993

Question. The statement of managers language accompanying the FY 1993 Act instructed Customs increase the Nogales port by 10 FTEs, the Naco port by 5 FTEs, and the Douglas Port by 5 FTEs. Can you tell me the status of these positions?

Answer. As of this date, we have allocated these 20 new positions to the Nogales District. Based on discussions between Customs and your office, the new positions were distributed to the following ports of entry:

2 for Douglas
2 for Naco
10 for San Luis
6 for Nogales

In addition, we allocated 10 additional positions to the Nogales District. Four of these positions are to be allocated by the District Director based on workload requirements. Six of these positions are funded by COBRA.

Question. For the record, can you provide us with the allocation of inspectors by port on the Southwest border to include the new positions?

Answer. A report identifying allocations of Southwest border positions by port has now been provided for your use.

SANCTIONS ENFORCEMENT IN SERBIA AND MONTENEGRO

Question. Earlier this year I was notified that Customs planned to send 10 full-time inspectors to the former Yugoslav region to assist the State Department in enforcing sanctions against Serbia and Montenegro. At the time, you expected this activity to cost Customs an additional $600,000. Recently, I received another letter from Treasury, advising me that the number of Customs inspectors would be increased to 20 and that the full-year costs would total $1,200,000. Where are you taking the funds to cover these costs?

Answer. Initially, this funding has been reallocated from other planned travel. However, as you mention, a reprogramming request was forwarded to both Houses on May 7, 1993, which proposed that Customs move $1,200,000 from its equipment funds. This would mean the postponement or cancellation of an array of minor equipment purchases.

Question. What will be the full-year costs for this activity, and, if it continues into FY 1994, where do you plan to get the funds again to cover these expenses in FY 1994?

Answer. At this time, the estimated full-year cost for FY 1993 is $2.2 million. The present plan is for Customs and Treasury to share this cost, $1.2 million for Customs and $1.0 million for Treasury.

Because at present the administration has not made a decision to continue this program, we have no plan for reallocating the required resources in FY 1994.

CARIBBEAN DRUG ENFORCEMENT POSITIONS

Question. Your FY 1994 budget justification shows an increase in FY 1993 of 52 FTE for Caribbean drug enforcement activities. Your justification states that these positions had been previously reimbursed from the Puerto Rico appropriation and the trust fund for the U.S. Virgin Islands. Can you explain why these positions will no longer be supported through the trust funds and explain what the cost will be to the salaries and expenses account?

Answer. It has been determined by counsel that enforcement activity in Puerto Rico and the Virgin Islands, which is to be paid from collections in those two locations, must be in support of collection activity. Consequently, Customs Salaries and Expenses appropriation must absorb the cost of any enforcement activity that is not related to the collection of duties. In FY 1994, we propose to shift the funding for 52 FTE from the Puerto Rico appropriation and the trust fund for the U.S. Virgin Islands to the Salaries and Expenses appropriation. The cost to be absorbed is estimated to be about $7 million. The Agency is continuing to study this issue.

EXECUTIVE ORDER PERSONNEL REDUCTIONS

Question. In order to comply with the President's Executive Order to reduce personnel by 1 percent in FY 1993, I see that Customs, will lose 177 positions. Can you tell us where you plan to take these reductions and what effect, if any, this will have on enforcement and trade facilitation activities?

Answer. Because the 177 FTE reduction has to be accomplished during the present fiscal year, attrition is the only method available to us. There is no choice but to leave unfilled all positions which become vacant. However, for planning purposes, we have targeted reductions to be taken--in both FY 1993 and FY 1994--primarily in support positions at the National Headquarters, Regional Headquarters, and District and Special-Agent-in-Charge offices. Field operations for enforcement and inspection and control activities will

receive fewer reductions. Commercial activities are targeted for the fewest reductions.

Because Customs has laid a solid foundation with effective technology and automated systems, I am confident that it will be able to perform its enforcement and trade facilitation missions in an efficient and effective manner, despite the cut in positions.

My level of confidence, however, could be even greater if the Congress would help us by removing certain legislative restrictions and earmarkings that exist in the current law. Currently, there are locations we cannot close, reduce hours at, or reorganize because of legislative restrictions. The elimination of staffing floors would provide much-needed flexibility in our future resource environment. The preservation of the current set of user fees, or improvements to them, provide another opportunity for reinforcing Customs high level of service to the public and private sector. Also, the Customs Modernization bill, now under Congressional review, would help us streamline, modernize, provide better service, use more automation, and make us more productive.

Question. What assurance can you give the Committee that at least 10 percent of these reductions will be taken in grades 14 and higher, as mandated by the President's Executive Order?

Answer. There are Treasury and OMB controls which will assure that the target reductions pertaining to GS-14s and above will be met. We will carefully monitor these reductions within Customs. In addition, we currently have a freeze on promotions to the GS-14 level and above, and each Assistant Commissioner and Regional Commissioner has had to propose a plan on reductions of GS-14s and 15s.

Question. Can you tell us what the attrition rate has been historically?

Answer. Historically, attrition has averaged 3-5 percent. However, at the present time, we are losing employees at a rate of less than 2 percent.

PERSONNEL REDUCTIONS IN FY 1994

Question. Commissioner, looking at your FY 1994 budget, I am extremely concerned with the proposed personnel reductions totalling 365 FTEs. This, coupled with the FY 1993 reductions, totals 642 FTE from the FY 1993 enacted level. Reviewing your activity charts, it appears that you plan to take 76 positions out of Inspection and Control, 85 out of Tariff and Trade, 115 out of Enforcement; and 70 out of Support. It doesn't make any sense to me to be reducing inspectors and canine officers when the Congress has, in the past

several years, given Customs increases in these areas to respond to drug enforcement and trade facilitation. In addition, your agents are constantly telling me that they can't do their job with the current number of agents, that they need more, particularly since we have increased inspectors, which increases their caseloads. Yet, your FY 1994 budget proposes to eliminate 65 agents. Commissioner, can you tell me how Inspection and Control and Enforcement can be expected to adequately carry out their jobs with the reductions that are proposed in your FY 1994 budget?

Answer. The numbers that you refer to are based on across-the-board reductions for each Customs activity. As soon as sufficient attrition takes place, and we are again allowed to fill positions, I intend to make certain that long-term FTE cuts are taken in support positions to the greatest extent possible. I want line jobs, such as inspector, agent, auditor, and import specialist, to be filled to the utmost.

In order for me to do this, I need the Committee's assistance in removing the present restrictions on organizational changes.

Question. Commissioner, your FY 1994 budget also proposes to reduce the aviation program by 25 positions. When the Customs air interdiction strategy was formulated, Customs identified a need for a 960 FTE staffing level to fully support the various interdiction requirements, including those in Central and South America in support of the P-3s. Can you tell us what your current FTE level is for the air program?

Answer. The air program currently has 969 employees on board. However, we estimate that they will only use 960 FTE for FY 1993.

Question. Will any of the 177 reductions in personnel in FY 1993 be taken in this program?

Answer. The air program will lose nine FTE in FY 1993 due to the President's Executive Order for reduction of Federal positions.

Question. Can you identify for us what specific positions will be eliminated in FY 1994?

Answer. The air program will lose 13 additional FTE due to the same Executive Order. Again, if you will support me with the flexibility to make organizational changes, my long-term goal is to reduce support positions instead of line positions.

Question. What impact will this have on Customs ability to carry out its interdiction missions in the U.S., the Caribbean, and Central and South America, and provide training for many of the source host countries?

Answer. Until now, the air program has been able to quickly project a law enforcement presence whenever and wherever new threats presented themselves. With the loss of these positions, we must prioritize commitments of our assets and personnel. Our number one priority is to maintain an interdiction capability at our domestic borders, and to support domestic law enforcement efforts. Therefore, the loss of these positions will, most likely, force us to forego the commitment of assets and personnel to support any additional foreign operations and/or force us to prioritize our support to existing foreign operations so that we can adequately meet our domestic obligations.

CUSTOMS INSPECTORS OVERTIME REFORM

Question. Do you support giving inspectors and canine enforcement officers law enforcement status, which would give them law enforcement pay and retirement?

Answer. Senator, first let me thank you for your continuing interest in the well-being of our inspectors. I have seen the various studies, and support efforts to both reform Customs overtime, and to assure a fair compensations package for our officers. In regard to law enforcement coverage for inspectors, Senator, there simply are not funds available for any option that I am aware of to provide this coverage.

Question. Have you had an opportunity to discuss this with Office of Personnel Management Director James King, who is currently studying law enforcement pay and classification?

Answer. I have not had the opportunity to raise this particular issue with Director King, but I would look forward to doing so.

REDUCTIONS AND NON-RECURRING COSTS

Question. Your budget for FY 1994 shows administrative reductions and an "FTE technical adjustment." I understand that one of the administrative reductions is to comply with the President's Executive Order to reduce overhead. But can you explain to us the justification for the other administrative reduction, which totals $1,388,000, and the FTE reduction of 200?

Answer. The $1.388 million was a further reduction required by the administration. The reduction of 200 FTE was a technical adjustment taken to more accurately reflect the level of Customs labor cost budget.

TRADE FRAUD

Question. In FY 1993, the Committee provided the requested increase of $1,046,000 for an additional 8 FTEs for increased trade fraud activities. These positions

were to be fully annualized in the Customs FY 1994 budget to support 32 FTEs, yet I see no annualization in your FY 1994 budget request. Can you tell us the status of this initiative and explain why no funds are being requested in FY 1994 to cover the costs of these FTEs?

Answer. The funding for this initiative was allocated. All of the funding is being used for trade fraud purposes and includes enhancement to the automated fraud targeting system. This initiative will be maintained in FY 1994 at a level of eight FTE.

The new administration determined that the FY 1993 level was sufficient.

EQUIPMENT

Question. I see the only new initiative included in your FY 1994 budget is an additional $2,500,000 for the redesign of the Automated Commercial System, or ACS. Your justification states that these funds are needed to upgrade the system, which is now ten years old. Can you tell us your long-term plans for the ACS system and what it will cost to fully redesign and upgrade the system?

Answer. We are currently completing our plans for a complete modernization of ACS. We believe that significant increases in employee productivity, trade facilitation, and improved enforcement can be made possible by this project. We do not have final redesign costs yet, but this effort would require substantial amounts of funding in the next several years.

Question. One of my biggest concerns with building up the border with new facilities is that once these ports come on line, Customs must be in a position to properly staff and equip these new ports. I have not seen any increases being requested in the Customs budget over the past several years to equip new and expanded ports. Can you tell me what your equipment backlog consists of and what your plans are to ensure that these ports will have the personal computers and other equipment required to permit Customs inspectors and other personnel at the ports to do their jobs?

Answer. As we have assigned new positions to the Southwest border, new equipment has been provided as well. In addition, we are looking at the Agency's requirements for personal computers and other equipment. At the same time we hope to identify a number of potential sources of funding to proceed with acquisitions. Some of this may require reprogramming approval by your office.

Question. Your FY 1994 budget proposes a reduction of $7,636,000 from the FY 1993 enacted level for equipment. Can you explain why you are proposing a

17 percent reduction in this object class and tell us what the effect will be?

Answer. In line with overall reductions, our equipment budget has also had to take its share. Because much of the prior year funding went to provide equipment for new positions and in FY 1994 there are overall FTE reductions, we believe that by careful management, we should not suffer any severe effects.

CANINE TRAINING CENTER

Question. Can you give us an update on your construction activities at the Customs Canine Training Center located at Front Royal, Virginia?

Answer. $7,995,000 has been appropriated to Customs for the construction of facilities at the Canine Enforcement Training Center. To date, Customs has completed one phase of the architectural and engineering drawings and specifications, and an interagency agreement with GSA. Right now, we are in the process of negotiating the purchase of the land, which may cost up to $100,000.

The architectural model of the new kennel is complete. In September, the Center will begin construction of the new 102-run kennel facility. The estimated cost is $4,700,000.

Additional construction projects will include:

Cover Existing Vehicle Training Lot	$1,500,000
Tractor Building	$300,000
Gatehouse and Bridge	$485,000
Laundry/Kennel Support Building/ Instructor Office Building	$150,000
Extend Existing Lot	$98,000
Cover Firearms Ranges	$169,000

Question. What future plans do you have for this facility?

Answer. The current facilities at the Canine Enforcement Training Center were constructed in the 1920's and are unsuited for today's training needs. The construction of the new facilities will allow us to continue to expand our training capabilities--both for Customs canine teams as well as canine teams of State and foreign law enforcement agencies.

P-3s/ASARS

Question. The Committee has provided funding for Customs to procure four P-3 AEW aircraft. The fourth aircraft, I am told, is expected to be delivered to Customs sometime this month. Is this correct?

Answer. The final acceptance flight for the fourth P-3 AEW was conducted on May 25, 1993, at the Surveillance Support Center, Corpus Christi, Texas. The DD250 was signed, denoting aircraft acceptance, on May 26, 1993. The aircraft will be ready for mission operation in mid-June 1993, approximately five months ahead of the contract schedule.

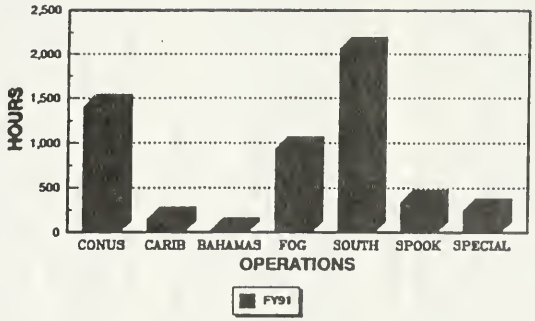
Question. For the record, can you provide the percentage of time each of the P-3 AEW and the P-3 slicks are devoted to surveillance missions by region of the country?

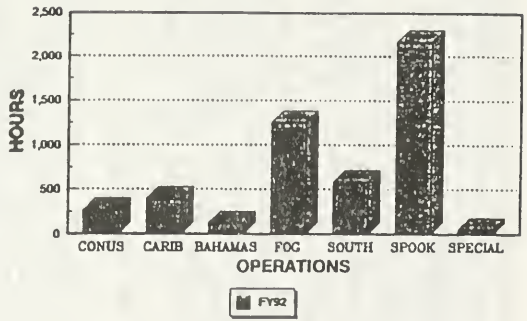
Answer. Yes. I am presenting for the record graphs which depict P-3 mission hours for the last three fiscal years.

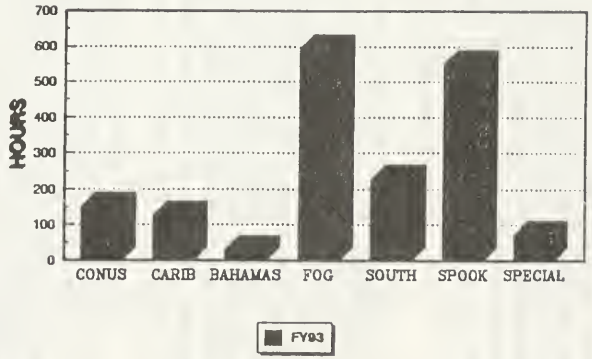
[The information follows:]

AIRCRAFT USE BY OPERATION

SURVEILLANCE SUPPORT CENTER







FY93 IS OCT 92 THROUGH JAN 93

Question. Is it your understanding, Commissioner, that the role Customs is currently playing in Central and South America will continue through FY 1993 and FY 1994, with reference to the P-3 program?

Answer. Yes. The Customs Service has made a commitment to support the National Strategy in Central and South America. Customs will continue to provide the U.S. southern command with approximately 25-29 P-3 sorties per month in support of various counter-drug operations in that area of responsibility. As you know, our current national counter-drug strategy is being reassessed by the administration. Should that reassessment yield different priorities, the Customs Service will, of course, make the proper adjustments.

P-3 OPERATIONS AND MAINTENANCE

Question. For FY 1994, Customs is requesting $28,000,000 for operations and maintenance activities of the Customs P-3 program. This amount includes a reduction of $793,000 associated with the President's Executive Order on administrative costs. I am concerned about this funding request, due to shortfalls in the P-3 program in both fiscal years 1992 and 1993. In addition, with the delivery of the fourth P-3 AEW, how can Customs expect to carry out its mandated mission without an increase in funding for this account?

Answer. The $28 million funding level which the Committee provided in FY 1993 took account of the fourth P-3 AEW. This level is carried forward into FY 1994 with no increase, which means that some small level of cost increases may have to be absorbed to retain the same number of flight hours.

INTEGRITY PROGRAM/PCS MOVES

Question. In FY 1993, Customs requested an additional $7 million for permanent change of station (PCS) moves for its enforcement program to implement certain integrity initiatives which were an outcome of the Blue Ribbon Panel (BRP). Due to a lack of funds, the Committee did not fund this initiative, but instructed Customs to forego lower-priority PCS moves funded in the base Customs budget to fund the new initiative. Can you give us a status report on the PCS moves and tell us whether or not base funds were, or are, being used to fund the moves consistent with the Blue Ribbon Panel recommendations?

Answer. Prior to October 1, 1991, when a national direct line reporting structure was adopted by the Office of Enforcement, approximately 200 enforcement personnel per year received a PCS transfer. Under the new structure, in both FY 1992 and FY 1993, a base line budget of $3.5 million was provided for PCS relocations.

This level of funding will relocate approximately 100-120 persons in FY 1993.

These funds will be expended for the routine requirements attendant to normal rotation through our overseas offices, our Headquarters offices (including FinCEN and Internal Affairs rotational staffs), and our national training structure, in addition to a minimum number of mid- and upper-level field managers.

The Blue Ribbon Panel recommended that Customs institute a mandatory rotation policy that would prevent enforcement personnel from remaining in one duty location for an excessively long period of time. The Panel believed that the lack of some level of mandatory rotation on a national scale increased the opportunity for integrity and corruption problems. The Panel also felt that agent expertise, at both the line and management level, needed to be more uniformly distributed by means of a national mobility policy and that Customs should consider rotation of personnel into and through "Hardship Posts of Duty" along the southern border. At this time, Custom does not have a mandatory rotation policy. National mobility, Special Agent career path, and hardship duty policies were developed to address the BRP's concerns, and were readied for implementation, but because of lack of funding were not put into place.

Customs is doing all that it can to adopt the BRP's recommendations within its existing funding. We have attempted to utilize the underlying principles of the BRP's recommendations in the selection of personnel to rotate through Headquarters, overseas, and training positions. The basic philosophy of the agent career path toward upper-level management positions has been adopted. Policy requirements for Headquarters service and diverse experience in both enforcement and internal affairs have been instituted in order to receive promotion to the GM-15 management level.

COUNTER-DRUG RESEARCH AND DEVELOPMENT

Question. In FY 1993, Customs stated that approximately $800,000 was included in its budget for research and development projects and that $1 million would be available from no-year funds. Can you tell us what amount is budgeted for these activities in FY 1994?

Answer. In FY 1993, R&D's base budget was $692,000 and $275,000 of no-year funds. In FY 1994, R&D expects funding of $800,000 base budget and up to $4 million no-year.

Question. Can you identify all funds received by Customs from other sources for R&D projects and identify other activities funded by other agencies which will benefit Customs?

Answer. R&D has received $300,000 from sources outside Customs in FY 1993. Activities funded by other agencies which will benefit Customs in FY 1993 are:

- o Empty Truck X-ray System: $ 3.0 million
- o Full Container X-ray System: $10.0 million
- o Neutron Detection System: $ 2.3 million

Question. In response to questions submitted for the record last year, regarding the DARPA contraband technology projects, Customs stated that, with reference to the test beds being developed by DOD, that "not only will Customs be unable to make productive use of the test-beds, but also it will be necessary to make further investments in the development and testing of prototype systems whose feasibility has been determined before we . . . have a basis for their procurement." Can you give us further information on this topic and tell us what needs to be done to ensure that the test beds will be useful to Customs?

Answer. Test beds for evaluation of X-ray and Pulsed Fast Neutron Activation (PNFA) detection systems have been established at Otay Mesa, California, and Tacoma, Washington. The Otay Mesa test bed has been established to evaluate the ability of the low-energy tractor-trailer X-ray system to find concealments in both empty and full containers, and in tanker trucks, at a land border.

The Tacoma test bed has been established for evaluation of high-energy X-ray and PNFA technologies for the examination of cargo containers. Customs would have preferred establishing this test bed at a location with a higher smuggling risk, but much can be learned from the test bed's placement at Tacoma, where the technologies can be used in an operational setting.

Question. Have you made your views know to DOD, and, if so, what has been the result?

Answer. Yes. They have taken our views into consideration.

Question. Can you identify your top ten R&D requirements by priority and amount, if funding were no problem?

Answer. Our priorities for R&D are currently being reviewed.

Question. The administration has not requested funding in FY 1994 to continue the Counter-Drug Technology Assessment Center (CTAC) of ONDCP. What impact do you believe this will have on Customs ability to see that counter-drug technologies are available for inspection and control and enforcement activities?

Answer. The lack of funding in FY 1994 for CTAC will be a blow to Customs R&D program, but I am confident that Customs R&D program will still be able to see that counter-drug technologies are available.

DRUG SEIZURES STATISTICS

Question. For the record, can you provide the Committee with drug seizure statistics by program and by area of the country for FY 1992? Can you provide the same information for FY 1993?

Answer. Agency-wide seizure totals are as follows:

	FY 1992	FY 1993 (to May 1993)
Heroin		
Number of Seizures	938	700
Quantity (in lbs.)	2,223.6	1,732.2
Cocaine		
Number of Seizures	2,141	1,434
Quantity (in lbs.)	244,597.2	105,691.1
Hashish		
Number of Seizures	1,819	850
Quantity (in lbs.)	4,046.3	1,212.3
Marijuana		
Number of Seizures	12,088	7,214
Quantity (in lbs.)	462,831.0	331,857.8
Opium		
Number of Seizures	2,995	1,698
Quantity (in lbs.)	1,061.8	1,185.4
Morphine		
Number of Seizures	3	7
Quantity (in lbs.)	0.4	19.7
Other Drugs		
Number of Seizures	2,265	1,685
Quantity (in lbs.)	8,260,520	11,893,495

Seizure totals for the Northeast Region are as follows:

	FY 1992	FY 1993 (to May 1993)
Heroin		
Number of Seizures	22	21
Quantity (in lbs.)	69.9	152.3
Cocaine		
Number of Seizure	104	56
Quantity (in lbs.)	665.8	1,393.2

Hashish		
Number of Seizures	326	177
Quantity (in lbs.)	60.9	16.9
Marijuana		
Number of Seizures	828	473
Quantity (in lbs.)	2,150.8	896.3
Opium		
Number of Seizures	0	2
Quantity (in lbs.)	0.0	6.0
Morphine		
Number of Seizures	1	0
Quantity (in lbs.)	<1	0.0
Other Drugs		
Number of Seizures	302	182
Quantity (in lbs.)	539,369	173,065

Seizure totals for the New York Region are as follows:

	FY 1992	FY 1993 (to May 1993)
Heroin		
Number of Seizures	537	322
Quantity (in lbs.)	1,310.4	774.8
Cocaine		
Number of Seizure	245	139
Quantity (in lbs.)	12,987.3	4,161.4
Hashish		
Number of Seizures	461	313
Quantity (in lbs.)	2,523.3	60.6
Marijuana		
Number of Seizures	2,646	1,658
Quantity (in lbs.)	13,981.9	32,389.4
Opium		
Number of Seizures	42	40
Quantity (in lbs.)	58.9	94.6
Morphine		
Number of Seizures	0	1
Quantity (in lbs.)	0.0	19.4
Other Drugs		
Number of Seizures	116	180
Quantity (in lbs.)	3,289,998	7,445,545

Seizure totals for the Southeast Region are as follows:

	FY 1992	FY 1993 (to May 1993)
Heroin		
Number of Seizures	151	212
Quantity (in lbs.)	373.2	558.5
Cocaine		
Number of Seizure	898	625
Quantity (in lbs.)	124,591.6	38,918.3
Hashish		
Number of Seizures	195	80
Quantity (in lbs.)	1,176.6	1,111.1
Marijuana		
Number of Seizures	2,016	945
Quantity (in lbs.)	106,379.6	61,568.2
Opium		
Number of Seizures	4	0
Quantity (in lbs.)	0.9	0.0
Morphine		
Number of Seizures	1	1
Quantity (in lbs.)	0.3	0.1
Other Drugs		
Number of Seizures	91	148
Quantity (in lbs.)	155,236	476,753

Seizure totals for the South Central Region are as follows:

	FY 1992	FY 1993 (to May 1993)
Heroin		
Number of Seizures	5	10
Quantity (in lbs.)	0.7	3.1
Cocaine		
Number of Seize	57	57
Quantity (in lbs.)	15,767.1	4,752.4
Hashish		
Number of Seizures	8	4
Quantity (in lbs.)	0.8	0.8
Marijuana		
Number of Seizures	280	226
Quantity (in lbs.)	53,593.3	15,769.5
Opium		
Number of Seizures	0	2
Quantity (in lbs.)	0.0	2.6

Morphine		
Number of Seizures	0	1
Quantity (in lbs.)	0.0	0.1
Other Drugs		
Number of Seizures	90	30
Quantity (in lbs.)	187,614	1,391,566

Seizure totals for the Southwest Region are as follows:

	FY 1992	FY 1993 (to May 1993)
Heroin		
Number of Seizures	82	56
Quantity (in lbs.)	139.5	75.8
Cocaine		
Number of Seizure	424	255
Quantity (in lbs.)	37,514.0	22,960.5
Hashish		
Number of Seizures	160	21
Quantity (in lbs.)	3.9	0.1
Marijuana		
Number of Seizures	2,541	1,670
Quantity (in lbs.)	181,158.1	132,580.7
Opium		
Number of Seizures	6	2
Quantity (in lbs.)	3.9	4.7
Morphine		
Number of Seizures	0	2
Quantity (in lbs.)	0.0	0.1
Other Drugs		
Number of Seizures	760	463
Quantity (in lbs.)	645,009	183,607

Seizure totals for the Pacific Region are as follows:

	FY 1992	FY 1993 (to May 1993)
Heroin		
Number of Seizures	123	57
Quantity (in lbs.)	272.7	140.5
Cocaine		
Number of Seizure	310	237
Quantity (in lbs.)	52,864.5	33,365.0

Hashish		
Number of Seizures	427	119
Quantity (in lbs.)	266.8	16.0
Marijuana		
Number of Seizures	2,369	1,671
Quantity (in lbs.)	103,093.5	86,076.8
Opium		
Number of Seizures	2,939	1,649
Quantity (in lbs.)	990.6	1,076.4
Morphine		
Number of Seizures	1	1
Quantity (in lbs.)	0.1	<1
Other Drugs		
Number of Seizures	599	507
Quantity (in lbs.)	3,388,853	1,067,442

Seizure totals for the North Central Region are as follows:

	FY 1992	FY 1993 (to May 1993)
Heroin		
Number of Seizures	18	22
Quantity (in lbs.)	57.1	27.1
Cocaine		
Number of Seizure	103	65
Quantity (in lbs.)	207.0	140.3
Hashish		
Number of Seizures	242	136
Quantity (in lbs.)	14.1	6.7
Marijuana		
Number of Seizures	1,408	571
Quantity (in lbs.)	2,473.9	2,576.9
Opium		
Number of Seizures	4	3
Quantity (in lbs.)	7.5	1.2
Morphine		
Number of Seizures	0	1
Quantity (in lbs.)	0.0	<1
Other Drugs		
Number of Seizures	307	175
Quantity (in lbs.)	54,438	1,155,513

As to the requested activity-based data, it is important to note that since officers within both the inspection and control (I&C) and the enforcement activities sometimes participate in actions together, the

numbers from separate reports covering I&C and enforcement cannot be summed to equal the overall Customs numbers which are reported above. Actions involving large seizures are especially likely to involve broad participation; hence attribution to more than one Customs program.

Enforcement activity seizure totals are as follows:

	FY 1992	FY 1993 (to May 1993)
Heroin		
Number of Seizures	669	501
Quantity (in lbs.)	1,783.7	1,280.7
Cocaine		
Number of Seizures	990	672
Quantity (in lbs.)	208,626.5	88,079.7
Hashish		
Number of Seizures	121	92
Quantity (in lbs.)	2,893.2	1,138.6
Marijuana		
Number of Seizures	2,419	2,261
Quantity (in lbs.)	315,898.3	254,425.9
Opium		
Number of Seizures	39	33
Quantity (in lbs.)	137.3	123.9
Morphine		
Number of Seizures	1	3
Quantity (in lbs.)	0.3	19.6
Other Drugs		
Number of Seizures	263	228
Quantity (in lbs.)	5,423,074	1,740,772

Inspection and control activity seizure totals are as follows:

	FY 1992	FY 1993 (to May 1993)
Heroin		
Number of Seizures	616	521
Quantity (in lbs.)	1,642.8	1,310.8
Cocaine		
Number of Seizures	1,068	1,019
Quantity (in lbs.)	47,615.0	108,041.6
Hashish		
Number of Seizures	842	1,018
Quantity (in lbs.)	1,175.2	3,061.5

Marijuana		
Number of Seizures	6,301	7,242
Quantity (in lbs.)	156,428	158,272.5
Opium		
Number of Seizures	1,675	2,090
Quantity (in lbs.)	1,165.1	670.8
Morphine		
Number of Seizures	7	1
Quantity (in lbs.)	19.7	<1
Other Drugs		
Number of Seizures	1,558	1,278
Quantity (in lbs.)	11,194,192	3,304,523

SOURCE: Customs Law Enforcement Activity Report (CLEAR) Arrest and Seizure Summary run June 14, 1993. Counts reflect values in Search/Arrest/Seizure files on date report was run.

OPERATIONS AND MAINTENANCE, AIR AND MARINE INTERDICTION

Question. I see that the Operations and Maintenance activities of the Customs air and marine interdiction programs will be taking a $2,400,000 reduction associated with the President's Executive Order mandating a three percent overhead savings in FY 1994. Where will this reduction be taken and what impact will this have, if any, on the Customs air and marine programs?

Answer. The Air and Marine program has recently completed an extensive review of all its technical representative contracts. It was determined that several of these contracts could be reduced or eliminated, thus reducing program costs. Additional reductions necessary to meet the President's three percent savings will be distributed evenly throughout the program.

AIR ASSETS

Question. Can you please identify for the record all of the air assets Customs presently has in its fleet and identify the assets which are on loan from other agencies?

Answer. There are 123 aircraft in the operational fleet:

TYPE OF AIRCRAFT	QUANTITY	REMARKS
Beechcraft 200 (KING AIR)	4	
C-12C (KING AIR)	6	On loan from Army
C-404	6	
PA-31	14	
PA-42 (CHET)	8	
C-550 (CITATION)	26	
P-3A	4	On loan from Army

P-3B (AEW)	4	
E-90 (KING AIR)	1	
C-206	2	
C-210	15	
C-500	1	
UH-60 (BLACK HAWK)	18	On loan from Army
B-206	2	
MD-500	2	
BK-117	3	
N-22S (NOMAD)	7	

In addition, there will be seven American Eurocopter AS350 helicopters added to the fleet between July and October of this year.

Question. I understand that the Department of Defense is attempting to get Customs to return the C-12s currently used for support purposes and reimburse them for damaged or lost Black Hawk helicopters. Can you tell me the status of these requests and Customs plans to respond to these requests?

Answer. Customs has agreed to return one C-12 per year, beginning in September 1993. DOD understands that this agreement is subject to Congressional approval.

DOD has requested reimbursement for three Black Hawk helicopters. Two of these helicopters were damaged, and the other one was lost in the Atlantic. An agreement was reached with DOD to reimburse them for the remaining repair cost associated with the helicopter damaged in 1989. Customs is requesting funds for repair or replacement of all three Black Hawks through the normal budget process.

Question. What would be the effect if these assets were returned? What assets do you have available which could meet the mission requirements?

Answer. Customs currently utilizes C-12 aircraft to supplement the UH-60 Black Hawk as an apprehension aircraft. The C-12 is most useful in situations where the smuggler aircraft has greater speed than the Black Hawk. The C-12 can carry an apprehension crew of sufficient size. It has a good dash speed, and the short field take-off and landing capabilities are excellent.

The loss of these aircraft would severely hamper our efforts to combat the flow of illicit drugs into the United States. If a smuggler aircraft having greater speed than that of our Black Hawks is intercepted, we could easily find ourselves in a position in which we would be required to divert sensor-equipped aircraft from detection and tracking responsibilities in order to transport an apprehension team. This would, in turn, leave us vulnerable with regard to our intercept and tracking capabilities.

Additionally, the loss of the C-12 transport capability for our foreign operations could also affect our ability to properly staff and supply these operations on a regular basis.

We do not have any other assets that can adequately perform the mission of the C-12.

SMALL AIRPORTS

Question. For FY 1994 you are requesting $1,406,000 and 30 FTEs to support the Customs Small Airport user fee program. This amount reflects a reduction of $94,000 and 2 FTEs. What impact if any will this have on your ability to respond to small airport service in various communities?

Answer. Customs will try to minimize the adverse impact of these reductions.

TITLE 21 CROSS DESIGNATION

Question. How many Customs agents are currently cross-designated by the DEA for investigating drug cases?

Answer. There are currently 1,246 Customs special agent positions cross-designated under Title 21 drug enforcement investigative authority.

Question. How does this compare to the number of requests which have been made to the Justice Department?

Answer. Under an agreement between the Drug Enforcement Administration (DEA) and the U.S. Customs Service, 1,000 Customs special agent positions were cross-designated in 1990, as requested. This number was in addition to the 246 Customs special agents who had been cross-designated prior to that date. In 1991, Customs requested that an additional 500 be cross-designated. The DEA declined to grant this request.

HURRICANE ANDREW

Question. The Congress appropriated an additional $34,420,000 to the Customs Service in FY 1992 to cover emergency requirements as a result of Hurricane Andrew. Can you tell us the amount of funds that have been obligated to date from this emergency, for which specific projects, and when you expect to complete repairs and fully obligate the remaining balances?

Answer. Of the $34.420 million appropriated, $27.251 million remains available. The majority of funding was for construction and major equipment replacement. The procurement process requires long lead times before the obligations occur. The C3I repair has

been our first priority, and $1.131 million has been obligated against the $4.450 million planned. The C3I Expansion procurement process is just getting underway; therefore, only $400 thousand has been committed for this project.

Question. Does Customs plan to keep its permanent air branch operation at Homestead Air Force Base? If not, what alternatives are you considering?

Answer. All information to date indicates that Customs will keep its operation at Homestead.

QUESTIONS SUBMITTED BY SENATOR BOND

FY 1994 INITIATIVES

Question. The only enhancement your budget is requesting is for ACS Revenue Redesign. What is this and what will it do that currently is not being done?

Answer. The Automated Commercial System (ACS) Revenue Redesign Initiative is the first part of a multi-year ACS modernization effort. ACS is the world's largest batch processing system and the backbone of Customs commercial operations. It will be ten years old in FY 1994.

ACS Revenue Redesign will mean improved financial controls. The Customs Service was designated by OMB as being a high risk with regard to collecting and accounting systems for revenues and imports. Customs collections total over $19 billion annually, with $3 billion in cash collections deemed at risk. A redesign of Customs Automated Revenue Accounting (CARA) module will help ensure that systems generating over $19 billion in collections are compliant with current requirements. This initiative will also improve the efficiency of revenue collection.

Question. Last year the Committee did not fund several of the President's initiatives. I note that none of them are considered in this budget. Am I to assume that you were able to fund them out of the monies we provided, or that they are no longer the priority they once were?

Answer. We did not request additional funds for these programs due to this year's budgetary constraints.

52 FTE FOR SAC CARIBBEAN

Question. An adjustment for funding for the SAC Caribbean is being requested. Could you explain why this is necessary and what it, in effect, does?

Answer. It has been determined by counsel that enforcement activity in Puerto Rico and the Virgin Islands, which is to be paid from collections in those two locations, must be in support of collection activity. Consequently, Customs Salaries and Expenses Appropriation must absorb the cost of any enforcement activity that is not related to the collection of duties. In FY 1994, we propose to shift the funding for 52 FTE from the Puerto Rico Appropriation and the trust fund for the U.S. Virgin Islands to the Salaries and Expenses Appropriation. The cost to be absorbed is estimated to be about $7 million. The Agency is continuing to study this issue.

ALLOCATION OF COBRA FUNDS

Question. Customs usually allocates funds from the processing fees collected under COBRA annually to enhance activities. This has in past years led to more inspectors and equipment. Will Customs be utilizing COBRA funds this fiscal year? How about during FY 1994?

Answer. The allocation of COBRA funds for FY 1993 is $60 million. Limitations on reimbursable FTE authorization may limit our ability to increase any further positions for FY 1994.

SANCTIONS ENFORCEMENT IN SERBIA AND MONTENEGRO

Question. Could you explain the role Customs inspectors are playing with regard to sanctions in the former Yugoslavia?

Answer. Since October 1992, Customs has been cooperating with the State Department in its efforts to enforce the United Nations sanctions against Serbia and Montenegro. Twenty-seven Customs officers now participate in Sanctions Assistance Monitoring (SAM) teams in Romania, Bulgaria, and Macedonia. These teams inspect incoming shipments for goods embargoed by the United Nations.

EXPORT ENFORCEMENT

Question. "Technology Transfer" has been one of the major enforcement efforts of the Customs Service. Things have changed with the fall of the Eastern Bloc, but the world is certainly not a safer place, yet. Is this program still viable within the Customs Service?

Answer. As you have surmised, the focus of our efforts to stem illicit technology transfer has greatly changed over the past several years. Until the late 1980's, our main export enforcement thrust was stopping dual-use and military technology from going to the Soviet bloc. This situation has drastically changed, to the point where we now have few, if any, technology diversion cases which concern the Soviet bloc.

Today, we are faced with numerous aggressive Third World countries (the proliferation countries) which are trying to develop or enhance their military stature through illicit acquisition of Western military and dual-use technology. What is particularly worrisome is that many of these countries are engaged in efforts to acquire technology that supports weapon systems of mass destruction; including nuclear, chemical, and biological weapons; and their delivery systems, such as medium and long-range missiles.

The Government has initiated several major integrated programs to both monitor and deter the efforts of these countries to acquire illicit technology. As part of these efforts, Customs export enforcement activities have been refocused and prioritized in this area and are being coordinated with other concerned agencies, including the Departments of Defense, Commerce, Energy, State, Justice, and the Intelligence Community.

At present, we estimate that approximately three-fourths of our export enforcement case load concern illicit exports to the proliferation countries. These cases concern allegations of shipments of not only weapons technology, but also dual-use technology, such as machine tools, computer hardware and software, electronics, and technical data. We also have refocused our interdiction efforts so that suspected shipments to proliferation countries are given the highest priority.

We also closely coordinate with the Federal agencies mentioned above in information and intelligence exchange. Over the past year, these relationships have become much closer and have resulted in several significant and successful investigations. These agencies also render great technical assistance in many areas.

Question. For the record, could you provide the number and location of offices, the number of personnel, and the type of cases they would pursue?

Answer. All of our offices are fully cognizant of the export control enforcement program. Naturally, due to geographic locations, some of these offices have very few investigations or other activities in this area. However, all our major export port cities have strong programs in place. Also, we have twenty-three foreign offices which can be called upon to assist and to conduct liaison activities with this Agency's foreign counterparts.

During FY 1992, we expended approximately 200 staff years in the inspection and interdiction of export shipments, and approximately 300 staff years in the investigation of violations of the export laws.

INTELLECTUAL PROPERTY RIGHTS

Question. It has been reported that U.S. business is losing over $60 billion annually to foreign producers who illegally infringe on our intellectual property rights. What is Customs doing with regard to this situation?

Answer. Substantial resources have been allocated to training Customs officers, maintaining an Intellectual Property Rights (IPR) computer database, which includes images of registered trademarks and copyrights, and exchanging information with industry. Customs is actively working with other countries' customs bureaus, the United States Trade Representative, and the Customs Co-Operation Council to stop infringement at its source.

IPR protection is a priority in Customs New Trade Enforcement Strategy. Over the past several years, significant illegal imports have been seized, and other violations have been deterred through our efforts. Our activities with other customs bureaus and the governments of foreign exporters have produced effective actions by those governments to control illegal shipments to the U.S.

REGULATORY AUDIT

Question. Your budget submission indicates that the regulatory audit program is a key element in your approach to controlling commercial activities. How is this program integrated into Customs commercial processing? Based on evaluation, how well has this program performed?

Answer. The regulatory audit program has been fully integrated into Customs commercial processing systems. An audit plan is developed annually, and the highest priority is given to high-risk importers and those with the greatest additional revenue potential. The audit plan includes suspected fraudulent transactions and referrals from Customs inspectors and import specialists. In 1992, regulatory audit revenue recoveries were $167 million. During the past year, coordinated efforts by auditors and special agents resulted in a revenue recovery of $34 million from a single audit.

In addition to its importance in producing revenue, the regulatory audit program is an important part of our trade facilitation program. When auditors determine that declarations made by importers are reliable, their transactions receive expedited processing. These "compliance audits" allow other Customs personnel to redirect their efforts away from reliable firms. Audit/Inspection procedures are being used to control warehouse and Foreign Trade Zones. They have significantly improved Customs control over these

facilities and cost less than increased physical supervision.

The Office of Regulatory Audit has expended considerable effort in reaching out to various trade groups through speaking engagements at various trade meetings, in order to ensure Customs requirements are understood. We believe these efforts, along with our audit efforts, will result in improved compliance.

We are extremely satisfied with the improving performance of Regulatory Audit in its commercial compliance and revenue roles.

EXECUTIVE ORDER REDUCTIONS

Question. Executive Order 12389 requires that personnel reductions be made throughout the Government. On page S&E-8 of your justification, number 4 and number 7 indicate a reduction of nearly $24 million and 265 FTE. How does this translate to positions in FY 1993 and FY 1994?

Answer. Executive Order 12389 translates into a reduction in the Salaries and Expenses Appropriation of 177 FTE in FY 1993 and an additional 265 FTE in FY 1994. Under current administrative controls, reimbursable positions would also have to be reduced.

Question. How will you reach these reductions? Will a RIF be necessary?

Answer. The agency will achieve the required FTE cuts by attrition, combined with an external hiring freeze and an internal freeze on promotions to the GS-14 level and above at this time. We do not anticipate a Reduction in Force will be necessary.

Question. Where will these reductions be applied?

Answer. In FY 1994, Customs has targeted reductions to be taken primarily in support positions at the National Headquarters, Regional Headquarters, and District and Special-Agent-in-Charge offices. Field operations for enforcement and inspection and control activities will receive lesser reductions. Commercial activities are targeted for the least reductions.

Question. Will the reduction have an adverse impact on trade and enforcement activities?

Answer. Because Customs has laid a solid foundation with effective technology and automated systems, I am confident that it will be able to perform its mission in an efficient and effective manner, despite the cut in positions.

My level of confidence, however, could be even greater if the Congress would help us by removing certain legislative restrictions and earmarkings that exist in the current law. Currently, there are locations we cannot close, reduce hours at, or reorganize because of legislative restrictions. The elimination of staffing floors would provide much-needed flexibility in our future resource environment. The preservation of the current set of user fees, or improvements to them, provide another opportunity for reinforcing Customs high level of service to the public and private sector. Also, the Customs Modernization bill, now under Congressional review, would help us streamline, modernize, provide better service, use more automation, and make us more productive.

Question. How will you apply the administrative cost reduction?

Answer. These reductions will be spread over all categories of administrative costs, except GSA rent.

FTE TECHNICAL ADJUSTMENT

Question. Your justification reduces FTE by 200 in what is termed an "FTE Technical Adjustment." Could you explain what this means? How did we get to the point where this action was necessary?

Answer. For some time Customs has been unable to achieve the established FTE "floor." This technical adjustment corrects the agency's accumulation of unfunded FTE. The unfunded FTE occurred because of internal Customs practices and external policies.

Internally, management judged it appropriate to establish enhanced compensation packages for certain operational positions, such as those assigned to complex cases, trade programs, and technological systems. The larger salary costs resulted in fewer persons being hired.

Similarly, external policies have dictated mandatory compensation increases which the Agency has had to absorb. These have included health benefits increases, pay increases, and special salary rates for clerical personnel. Policies which require absorption of costs decrease the number of positions which can be funded.

GSA RENT

Question. Rental payment to GSA now amounts to approximately 10 percent of your Salaries and Expenses budget. For the record, could you please supply answers to the following: How does the cost break out with regard to administrative and non-administrative space?

Answer. Customs budget includes $20,416,507 for administrative space and $84,082,188 for non-administrative.

Operations under the administrative category include the Executive offices, Executive Management Staffs, Equal Opportunity, Labor Relations, Safety, Public Affairs, Regulatory Audit, regional Commercial Operations and Inspection & Control functions, Operations Analysis Staff, ADP rooms, and Regional Counsel. Space assigned to SECTOR Communications, Internal Affairs, Laboratories, District or Area Directors, and Office of Enforcement is included in "non-administrative."

Question. How has the Southwest border capital improvements effort impacted on your SLUC charges?

Answer. The Southern Border Capital Improvements Program (SBCIP) has significantly impacted our rent. Three new stations in Texas--Ysleta, Colombia, and Los Indios--covering 40 to 80 acres each, with estimated annual rents of $1.5 million each, were completed in 1992 and 1993. The rent impact for these stations and those which have had renovations or expansions in the same time frame was $2 million for FY 1992 and $7 million for FY 1993.

GSA has notified the inspection agencies that they will be charged for the costs to construct a bridge, sewage treatment plant, and water filtration plant at the new Calexico, California, station. It will cost approximately $10 million to construct these three items, and the cost is to be amortized in the rent. Since these are not Agency-requested items, but items needed to make the station functional, we will be discussing this issue with GSA to determine whether these costs should be reflected in the rent calculations or handled in some other way.

Question. If savings can be made, where might they be?

Answer. The estimated annualized FY 1993 rent is $110 million, and the estimated annualized FY 1994 rent is $119 million. As you noted, rent accounts for almost 10 percent of Customs total budget, surpassing $97 million in FY 1992.

The Federal Building Fund finances the Public Buildings Service, the GSA's real property management division. In general, agencies pay into this fund at commercially comparable rates for the space and related services they receive. Expenditures to maintain and operate space, make lease payments, and construct new Federal space, as well as other real property related expenses, are all funded from the Federal Building Fund.

As a result of the current economic climate, the public and private sectors are downsizing their operations. This has resulted in increased vacancy rates and correspondingly lower rental rates in many real estate markets. Federal agencies, however, are not receiving the benefit of the soft real estate market.

In general, GSA appraises buildings on a 5-year cycle, and then escalates the base rent rate yearly, based an a local Consumer Price Index. Because the appraisals are performed 18 months in advance of the base fiscal year, rental rates cannot always match actual current market conditions. It is the agency's responsibility to appeal any rent rate believed to be incorrect, and appeals of rent rates take a considerable amount of time to work out. The rent rate for the customhouse at 6 World Trade Center, New York, was reduced from a FY 1993 budget estimate rate of $63.31 per square foot of office space to $46.41 after a 2-year appeal. This reduction saved Customs almost $7.7 million per year in rent.

The Federal Building Fund policies could be reviewed and revised to make it easier for agencies to receive the benefits from favorable lease negotiations or from being housed in older, Federally-owned facilities.

Savings could also result from revision of the "Return on Investment" method of calculating rent at border stations. Many border stations, particularly along the Canadian border, are more than 10 years old. The Government incurs only maintenance costs on these facilities today. Once the original facility costs have been recouped, agency rent costs could be reduced by bringing rent into line with the smaller recurring maintenance cost that remains.

REMOVAL OF CONGRESSIONAL RESTRICTIONS

Question. Customs has a multi-tiered organizational structure. Through the years, there have been those who have said the current structure could and should be changed. In fact, Customs has for years testified that Congress has tied its hands by requiring staffing floors and the current organizational structure. Commissioner, as you are aware, those requirements have been carried to allay fears of many that jobs would be lost and service would falter. If we were to lift or alter some of these "obstacles," what assurances could you give us that the trade community would be as well, or better, served than it is today?

Answer. Senator, we need to take a long, hard look at our organizational structure. Were the legislative restrictions to be removed, we would develop a plan to streamline the organization, while providing more efficient and cost-effective service. We may accomplish the needed changes by closing some purely administrative

offices and consolidating duplicative support functions. This would free up staff to work in the districts, actually enhancing service to the public by providing more inspectors, import specialists, etc. Recognizing the political sensitivity of such an initiative, we would work closely with the Congress and those local communities which would potentially be affected by such organizational changes.

Question. For the record, could you give us a breakout of the number of positions currently filled in the headquarters levels--central and regional?

Answer. Senator, excluding the centralized administrative functions for accounting and personnel management, we have approximately 1,650 personnel assigned to our national headquarters. At the regional level, we have approximately 425 personnel assigned to the Regional Commissioners and the Regional Counsels. This excludes the regional functions for liquidation and regulatory audit.

Question. Where could changes be made?

Answer. Senator, changes are possible at both the national headquarters and regional headquarters. As I have said, it will be necessary to study our organization before formulating detailed plans, but I would like to develop a plan to streamline the Customs Service organizationally and procedurally. I propose to work with all interested parties, especially the Congress and the trade community, to ensure that the proposed changes will be of benefit to the various customers--importers, travellers, domestic industry, the general public, etc. Clearly to do this, I will have to streamline overhead and support functions.

USE OF VEHICLES

Question. I understand that various agencies in the Government are reviewing their use of vehicles as a cost savings measure. What is the current Customs policy? Are you considering a change?

Answer. The current Customs policy is spelled out in Customs Directive 099 5260-004, a copy of which is being submitted for the record.

One of the programs currently under scrutiny as a potential area for cost cutting is home-to-work vehicles. I have directed a careful review of this practice to determine if all such practices are appropriate and cost-effective.

[The information follows:]

THE FOLLOWING ISSUANCE CONTAINS GRAPHICS WHICH ARE NOT INCLUDED. THE COMPLETE ISSUANCE HAS BEEN PRINTED AND DISTRIBUTED.

ORIGINATING OFFICE: OM:L DISTRIBUTION: G-11, 0-01

NEW NUMBER: 099 5260-004

OLD NUMBER: 5260-04

ISSUE DATE: JUNE 26, 1985

SUBJECT: Home-to-Work Use of Official Vehicles

1. Purpose

To provide guidelines for use of official vehicles for transportation between home and work. This directive further clarifies what constitutes proper use of official vehicles for home-to-work transportation.

2. Superseded Material

Customs Directive 5260-02, dated October 3, 1985.

3. Reference Material

A. Title 31 United States Code, Sections 1344 Passenger Motor Vehicle and Aircraft Use.

B. Title 31 United States Code, Sections 1349 Adverse Personnel Actions.

C. Treasury Directive, TD 70-01.J, dated February 22, 1985.

D. Treasury Department Order no. 101-1.

E. P&PM 51735.2 (p)(2) - Transportation of Personnel in Government Cars.

4. Background

Customs Directive No. 5260-02, dated October 3, 1985, was issued to provide procedural guidance for service employees in satisfying the Treasury Directive TD 70-01.J, on the use of home-to-work use of official vehicles. However, the General Accounting Office (GAO) recently issued a report, GGD-85-76, 9/16/85, significantly restricting the use of government vehicles for home-to-work transportation. In light of the GAO findings, Treasury has issued new guidelines establishing revised policies and procedures for Home-to-Work Use of official Vehicles.

This directive is intended to clarify the new restrictions and place stronger emphasis on the government-wide policy that officials and employees not use official vehicles for home-to-work use except that which is expressly provided by law.

5. Policy

A. Official vehicles should not be used for home-to-work transportation except in the most exceptional circumstances or when expressly permitted by law.

B. Authorizations for law enforcement officers are limited to Classification Series Nos. 083, 1801, 1811, 1884, and 1890.

C. Transportation between home and work that is required for the performance of field work is permitted by law when authorized in writing.

D. Routine use by senior Headquarters or regional law enforcement personnel is not permitted except in the performance of field work. The authorization is valid only when the conditions justifying the authorization are present.

E. Use by Regional Commissioners is not permitted unless it can be fully justified on a case-by-case basis.

F. Authorizations for routine home-to-work use for official purposes must be reviewed for all personnel at Headquarters and at the region and field levels every six months. The purpose of the review is to ensure only those persons with a continued justifiable need are authorized use of official vehicles. Authorizations should be canceled when the work requirement is no longer valid. The authorization is automatically canceled upon termination of employment or permanent change of duty station.

The six-month review of authorizations does not apply to non-supervisory operational field personnel who perform law enforcement or regulatory enforcement duties on a daily basis.

G. The fact that home-to-work transportation may result in increased efficiency or convenience is not a justifiable exception.

H. In accordance with 31 U.S.C. section 1349, any official or employee who willfully uses or authorizes the use of any government-owned vehicles for other than official purposes shall be suspended from duty by the head of the agency without pay for not less than one month.

6. Definitions

A. "Supervisory personnel" shall include all employees with the title "supervisor" or "supervisory" as part of their official U.S. office of Personnel Management classification titles of their positions. Also included are those executive and managerial level personnel who have responsibility for direction and supervision of field operations.

B. "Administrative support personnel" will include, but not be limited to, those personnel in Administrative Services, Training, Finance, Personnel, Logistics, etc., in classifications other than Enforcement, Investigations, Inspection, etc.

7. Guidelines for Authorized Use

Government owned or leased vehicles will not be used for home-to-work transportation except under the following circumstances:

A. When emergency situations or security requirements justify home-to-work use of official vehicles where the agency would be deprived of essential services or where there is clear or present danger to the employee and where furnishing such transportation would provide protection not otherwise available.

B. In the performance of ongoing field work official vehicles may be used when:

- responding to calls which may be received after normal work hours.
- making calls after normal work hours.
- facilitating the following day's initial assignment.
- work involves a large proportion of time "on the road," away from an office or other headquarters and traveling from place to place.

C. When it is determined to be in the best interest of the Government for an employee to begin official travel in an official vehicle from home rather than from his or her place of employment.

8. Responsibilities

a. Commissioner

The Commissioner's responsibilities include:

(1) Delegated authority relating to designation of Customs employees authorized to use official motor vehicles for transportation between their domiciles and places of employment.

(2) Redelegation authority to authorized delegates relating to designation of Customs employees authorized to use official motor vehicles for transportation between their domiciles and places of employment. This authority is redelegated to Assistant Commissioners and Regional Commissioners (with concurrence of appropriate Assistant Commissioner) for employees in their respective offices. This authority may not be redelegated further.

(3) Reviews approvals and submission of semi-annual "Report of Findings" reports to the Assistant Secretary (Management).

B. Authorized Delegates

Responsibilities of officials delegated by the Commissioner the authority to authorize home-to-work use of official vehicles shall include:

(1) The preparation and certification authorizations for eligible employees under his/her jurisdiction.

(2) Semi-annual review and reporting of the status of authorizations for all Headquarters personnel and field supervisory and administrative support personnel under his/her jurisdiction.

(3) The reports shall be transmitted on November 15th and May 15th covering the periods 1 October through 30 March and 1 April through 30 September respectively. The reports shall provide the following information:

(a) Bureau

(b) Subordinate organization segment

(c) Name of individual authorized home-to-work transportation

(d) Frequency (daily, weekly, intermittent, etc.) of actual vehicle use

(e) Classification series of individual authorized

(f) Organization title of individual authorized

(g) Justification for authorization

(h) Name of supervisor authorizing the transportation.

C. Comptroller

The Comptroller has the responsibility for administering the program which includes:

(1) Development and issuance of policy and procedures to provide information required for proper program operation and control.

(2) Maintenance of central files of the authorization reviews for home-to-work use of official vehicles of all Headquarters personnel and supervisory and administrative support personnel in the field.

(3) Preparation of semi-annual report of authorization reviews (Report of Findings) for submission to Treasury.

D. Employees

Responsibilities of employees authorized to use official vehicles for home-to-work transportation include:

(1) Completing and signing authorization form; reading provisions of 31 U.S.C. Sections 1344 and 1349 provided on form; and signing form.

(2) Maintenance of "Vehicle Usage Log," CF 333 13, in assigned vehicle and annotate log when vehicle is used for home-to-work transportation.

signed
Commissioner of Customs

WORLD CUP USA 1994

Question. The Department of Commerce estimates that 1.5 million international visitors will travel to the U.S. for the World Cup games. In general terms, could you please explain what are the U.S. Customs Service plans for meeting the security, port of entry, and logistical demands related to the 1994 World Cup?

Answer. In June 1992, the Office of Inspection and Control alerted Customs field offices of the coming of the World Cup, soccer's quadrennial world championship. Because of its international appeal, Customs expects a surge in international traffic which this event will generate. Due to the diversity of the nine World Cup venue sites, we decided that any Inspection and Control (I&C) concerns would be more appropriately handled locally. In this regard, our regional offices have provided us with the names of regional I&C representatives designated to coordinate Customs involvement with the 1994 World Cup. We have also provided our field offices with a list of World Cup Venue Executive Directors, and have instructed our officers to work closely with the Directors and local police in addressing potential concerns, including security.

Question. Would U.S. Customs support a technical change to trade laws and Customs regulations, as has been done in the past for Olympic Games and the World University Games, to add a new Harmonized Tariff Schedule subheading to provide duty-free entry for the personal effects of participants and officials involved in the 1994 World Cup and for equipment for use in connection with the tournament?

Answer. Customs would support a change to the trade laws to add a Harmonized Tariff Schedule subheading for duty free entry of personal effects for participants and officials in such events. A provision in the Harmonized Tariff Schedule which expired on June 30, 1990, (9902.98.00), a copy of which is provided for the record, could serve as a model for such legislation.

[The information follows:]

Heading/ Subheading	Stat. Suf. & cd	Article Description	Units of Quantity	Rates of Duty 1 General	Rates of Duty 1 Special	Rates of Duty 2	Effective Period
9902.98.00	1/	Personal effects of aliens who are participants in or officials of the 1990 Goodwill Games, or who are accredited members of delegations thereto, or who are members of the immediate families of any of the foregoing persons, or who are their servants; equipment for use in connection with such games, and other related articles as prescribed by the Secretary of the Treasury.....	1/	Free	No change	Free	On or before 9/30/90

1/ See chapter 99 statistical note 1.

Note: The shaded area indicates that the provision has expired.

Question. The World Cup is the world's most watched international sporting event, and will be covered by thousands of media representatives from around the globe. What special arrangements will be made by U.S. Customs to facilitate the arrival and departure of the international media?

Answer. As I mentioned, the field offices have been instructed to make every effort to facilitate the movement of people, support personnel, and equipment of the national teams involved in World Cup competition. This would include members of the international media.

Question. As with the Olympic Games, some national delegations may request to bring into the U.S. certain foodstuffs for the special diets of the athletes. Is U.S. Customs, together with the Department of Agriculture, prepared to accommodate such requests?

Answer. Customs is fully prepared to cooperate with both the Department of Agriculture and the Food and Drug Administration (FDA) to accommodate such requests. However, it must be recognized that Agriculture and the FDA determine admissibility of foodstuffs, and that the protections provided by their laws must have top priority.

Additionally, most milk and sugar products are subject to quotas. Customs would support legislation to exempt from such restraints reasonable quantities for use by the Olympic teams.

Question. The Organizing Committee of World Cup USA 1994 has benefitted greatly from the support provided to it by Federal agencies. One example of assistance that has proven successful is the detail of an officer to the Committee to coordinate and oversee such issues. Would the U.S. Customs Service be prepared to assign an officer for this purpose?

Answer. We do not now envisage such a detail at this time. However, as mentioned before, we are fully prepared to work with the Organizing Committee as issues need to be addressed.

SUBCOMMITTEE RECESS

Senator DECONCINI. The subcommittee will recess until Wednesday, June 23 at 10 a.m.

[Whereupon, at 12:22 p.m., Wednesday, June 9, the subcommittee was recessed, to reconvene at 10:02 a.m., Wednesday, June 23.]

TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1994

WEDNESDAY, JUNE 23, 1993

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:02 a.m., in room SD–116, Dirksen Senate Office Building, Hon. Dennis DeConcini (chairman) presiding.

Present: Senators DeConcini, Kerrey, Bond, and Hatfield.

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF NATIONAL DRUG CONTROL POLICY

STATEMENT OF LEE P. BROWN, DIRECTOR

OPENING REMARKS

Senator DECONCINI. The Subcommittee on Treasury, Postal Service, and General Government will come to order.

Today the subcommittee will take testimony on the fiscal year 1994 budgets of the Office of National Drug Control Policy [ONDCP] and the General Services Administration [GSA]. We will begin the hearing with representatives of the Office of National Drug Control Policy and we are pleased to have Lee Brown, Director of ONDCP, as our lead witness.

Welcome, Dr. Brown. We are delighted to have such an esteemed and respected member of the law enforcement community as the new drug czar. I know that you were just confirmed last week and probably have not had a chance to learn everything about that office. I have been working on it for about 10 years and I still don't know everything about it.

As you know, I have had a longstanding interest in drug control programs going back to the days when I was a prosecutor in Arizona. I supported the legislation which created your office since I believe the only way we could truly wage a war on drugs was to appoint a leader to command the troops, formulate a strategy, and give him the resources and authority needed to conduct battle.

That has not happened during the past 4 years, and I sincerely hope, Dr. Brown, that this can occur under your leadership. I have shared with you legislation which I am introducing this week to reauthorize the ONDCP. It gives you the authority which I believe is needed to really act as the czar and as the true leader of the war

on drugs and direct drug control agencies to take actions needed to truly wage such a war. Without real authority and resources, I think we are just waiting our time.

Dr. Brown, during your confirmation hearing I made it very clear that I believe much more needs to be done at the Federal level in the area of demand reduction. However, I do not believe it should be accomplished by rolling back enforcement, investigations, and interdiction. I think that you agreed with me and I will have more questions on this topic this morning.

The subject we are here to discuss, however, is your budget. The fiscal year 1994 budget request for the Office of National Drug Control Policy totals $5.8 million and only 25 FTE's. This amount is $11.548 million and 87 FTE's less than the fiscal year 1993 enacted level. The request for the special forfeiture fund totals $28 million or $47.742 million less than the enacted levels.

While I recognize that your budget reflects the President's desire to reorganize the responsibilities of the Executive Office of the President, I am not convinced that the lion's share of the personnel and funding associated with that reorganization should be taken from this office. Your budget is not one which I believe will permit you to undertake the very large duties you are required to carry out under the law. I have a series of questions on this topic and look forward to hearing your views.

Dr. Brown, I sincerely mean it when I say that this subcommittee wishes you all the best to succeed in your new position. You have a very tough job, because with the present legislation, you are very much handicapped by what you can do in getting agencies to do what is set forth in the strategy once the President signs off.

I am hopeful that you and the White House will favorably want to enhance your capabilities and your legislative authority so that you can in fact, once the President has agreed to the strategy, implement it. That means directing a department or an agency to do something, whether it is a treatment or education or enforcement, you would have that authority. I look forward to working with you.

I know Senator Biden has some strong opinions along the same line about the necessity to make this truly a czar, truly a leader, truly an office that can direct the war on drugs. Obviously, the President is the true czar. His policy and his decision will be the ultimate decision. But once that is made and designated to you, I would hope that you would have greater authority to carry it out.

I must say that you have some good people who have worked for you there, though we have had some disagreements at times. They are very professional and work well and want to do a lot more than I think they are able to do under the law and, quite frankly, under the previous leadership of that office.

Dr. Brown, we are very pleased to have you here. We are here to work with you. We think your office is greatly underfunded and understaffed. We acknowledge the President's desire to reduce offices and I think some reduction could occur there. But I think what has happened is that they cut you off at your knees. I don't know how you are going to function. Perhaps you have the answer for us this morning.

You may proceed.

STATEMENT OF LEE P. BROWN

Mr. BROWN. Thank you, Mr. Chairman.

Let me first of all express my appreciation for the chance to appear before you today to discuss the President's budget for fiscal year 1994 on my office and drug control programs.

As you indicated, I have been on the job now for some 3 days, so this obviously represents my first opportunity to appear before the Congress in my capacity as the Director of the Office of National Drug Control Policy.

With your permission, I will submit my prepared statement for the record and take just a few minutes to talk about issues I think are important at this point in time and respond to any questions you may have.

I would like to briefly discuss the drug problem, as I see it, and the things I will be doing in the immediate future.

First of all, as you look at the drug problem today—and last night Health and Human Services released the "National Household Survey on Drug Abuse." This shows encouraging results, particularly as related to cocaine. But I think the Household Survey only tells part of the story. Other data I have looked at tells us that hardcore drug use continues unabated, that drug use, drug trafficking, drug violence continue to be a major problem especially to disadvantaged residents, particularly in our inner cities. That tells me that we still have lots of work to get done in order to achieve our objective of reducing drug use.

Since the time I have been here, I have been working on the problem. I have hit the ground running if you would. I spent Monday night, for example, having dinner with the President. There I had a chance to spend time talking to him about the issue of drugs. I came away very encouraged about his commitment not only to do something about the drug problem, but also to be supportive of my responsibilities as the drug director.

I also took the opportunity to speak with the First Lady and was also impressed with her concern, her interests, and her commitment to deal with the whole issue of drug treatment. As you know, she is working on the whole issue of health reform and the drug treatment component will be a part of that. I was impressed with that and will have continuing meetings on the drug treatment issue with her.

I know you are very much concerned, as you said earlier, about the downsizing of the staff in the office of which I am now responsible. That is a very important and very serious issue. I share your concerns. It was for that reason I met yesterday with the deputy chief of staff at the White House. We started some discussions on how to deal with the issue and how to make sure that I would have the resources necessary to do the job in context with the President's decision to reduce the staff in the Executive Office of the President by 25 percent.

I have already initiated discussions to address that as an issue. I am convinced that we will ultimately end up getting the staff necessary to do the job. I am encouraged by that meeting.

I also appreciate the importance of working with our allies. As a result of that, yesterday I had a chance to meet with the top drug

officials from Mexico. I have also made plans to meet with General Joulwan as soon as possible in the District of Columbia. But I am also very concerned about the domestic issues, so this weekend I will be going to Los Angeles to participate in a meeting out there dealing with the issue of urban problems associated with drugs and violence.

So as I said, I have hit the ground running and have done a number of things to carry out my responsibilities.

Let me speak for a moment about my immediate plans.

At this point in time, my top priority is to see that drug use in America is reduced. In order to do that, I will be immediately addressing the staffing issue that you and I talked about to ensure that I have the resources needed to get the job done. I am also in the process now of preparing our drug control strategy. As you know, we have not submitted one yet. My plan is to submit an interim strategy and spend the time necessary to consult with other State, local, public, and private individuals to have a full-blown strategy ready for next year.

In closing, let me say that I firmly believe that our strategy must be comprehensive. It must be balanced and the budget submitted by the President reflects that direction. Law enforcement is an important component of it. The proposed budget provides funds to promote the concept of community policing. That is something I have worked on and worked toward for all of my law enforcement career. I believe this is a better and more effective way of using police resources not only to address crime and violence but also the drug problem.

And we have to deal with demand reduction. That must be a high priority. We must assure that our children get quality education in the area of prevention. We must ensure that treatment is available and that if a person wants treatment they ought to be able to get it. Otherwise, we will see the addict continuing to pose a serious problem for the citizens of our city.

The international component is very important. We must work with the major drug-producing and transshipment nations to slow down if not reduce the amount of drugs that come into our country. That is very important.

My vision is to provide the leadership necessary to get the job done. My vision is to make sure that we provide the leadership to the Nation—Federal, State, local, public, and private—it will take all of us working together to make the difference. We at the Federal level must support State and local efforts because that is where much of the work is being done to address the drug issue.

I believe we can reduce drug use in America and thereby improve on the quality of life for all Americans. We can make a difference.

With that, Mr. Chairman, I will end my oral remarks.

PREPARED STATEMENT

Senator DECONCINI. Thank you, Dr. Brown. We have your complete statement and it will be made part of the record.

[The statement follows:]

STATEMENT OF LEE P. BROWN

Mr. Chairman, Senator Bond, and Members of the Subcommittee, I am delighted to have the opportunity to discuss with you today the President's fiscal year 1994 budget request for the Office of National Drug Control Policy and for drug control programs. This is my first Congressional testimony as the confirmed Director of Drug Control Policy, and it is an honor to appear before this Subcommittee which has done so much to confront drug trafficking and drug use, both at home and abroad.

As you know, Mr. Chairman, the Administration has not yet sent forward its formal National Drug Control Strategy (although I can assure you we're hard at work on it). We do, however, have a clear understanding of the nature of the drug problem in America, and some pretty good ideas about what has worked and what has not in recent years. In its broad contours, the fiscal year 1994 drug control budget reflects these ideas, as will the National Drug Control Strategy.

ASSESSING THE THREAT

Before I describe the major features of the budget, I would like to take a few moments to outline for you the drug threat as I see it, an assessment on which our budget proposals and our drug control strategy are based.

Drugs may not occupy the headlines of our newspapers as frequently as in the past, and they may no longer rank as the number one concern in public opinion polls. But you know as well as I, Mr. Chairman, that they're still very much with us, still causing untold misery, crime, and death. Recently released 1992 data—supported by my own observations on the streets of some of our major cities—confirm the continued increase in hard-core drug use, especially in our inner cities and among the disadvantaged. Many of these heavy drug users are addicted to cocaine, especially crack cocaine. And heroin, our old nemesis of previous decades, is showing signs of making a deadly comeback, fueled by bumper crops of opium poppies in Asia, the Middle East, and Latin America, and by the newly aggressive drug trafficking gangs seeking to develop and exploit new markets.

New data on drug-related medical emergencies give graphic evidence of these trends, especially in the alarming jump in medical emergencies involving heroin. Among young people too there is cause for real concern. The 1992 University of Michigan High School Senior Survey, released about a month ago, showed disturbing levels of the use of inhalants, marijuana, and LSD, especially among the youngest students in the survey, as well as a decrease in the number of eighth graders who regard cocaine use as harmful.

With respect to so-called "casual" drug use, the trend lines have been declining for several years. Indeed, since 1988, current overall drug use decreased by 12 percent, current cocaine use by 35 percent, and current adolescent drug use by 27 percent, to its lowest point ever recorded since the survey was initiated in the mid-1970s.

DIMENSIONS OF THE FISCAL YEAR 1994 BUDGET

The President is seeking $13.041 billion for drug control programs in fiscal year 1994, an increase of $830 million over the current year. This budget demonstrates how seriously the President views the threat posed by drug trafficking and drug use to our Nation. It states to all Americans and to our allies abroad that in the fight against drugs, this Administration intends to yield no ground.

Along with increased funding, the Administration believes it is time for a new direction in Federal drug policy. In light of the increasing concentration of the drug problem in hard core-drug using populations, we are targeting Federal funds on programs that will help these groups. We are putting new funding into programs that will help our towns and cities to put more police officers on our streets, and to employ highly effective community policing strategies. We are increasing the emphasis on demand reduction programs, particularly in drug treatment and in preventing drug use by our young people. And we are conducting a thoroughgoing review of our interdiction and international programs so as to put added effort into those tactics that have worked, and abandon those that have failed to make a difference.

INCREASED DEMAND REDUCTION

Although the Administration is seeking more funds for both supply and demand reduction programs, increasing demand reduction programs by twice the rate of the increase in supply reduction (ten percent for demand compared to five percent for supply). In sum, we are seeking $439 million in new demand reduction funding.

We believe that drug treatment works, that it is not only good drug policy, it is good crime policy, good urban policy, and good health policy. And we believe that every American with a serious drug problem should be able to access an effective treatment program, made available through a partnership of Federal, State, and local governments, the private sector, and third party providers. The Administration is seeking $2.5 billion for drug treatment, including $170 million in new funding, a 7 percent increase. These funds will be targeted more effectively in areas with the greatest concentration of hard core-drug users.

In addition, as I'm sure you know, the First Lady's Health Care Task Force is looking at including drug treatment in its comprehensive health care package. The Task Force assembled a group of drug treatment professionals to develop options and make recommendations to the President on what drug treatment benefits should be considered in national health care legislation. While this proposal has not been announced and is not included in this year's budget submission, over the long term it will be a central element of the President's drug and health care policy.

But increased funding for drug treatment will accomplish little if we do not at the same time invest in drug education and prevention efforts. We are seeking $1.8 billion for education and prevention programs, an increase of 16 percent, while pursuing our overall goals of better targeting and concentrating funding in programs of demonstrated effectiveness.

SUPPORT FOR COMMUNITY POLICING AND INCREASED POLICE PRESENCE

Also central to the President's drug policy is his initiative to put more police on the streets and to expand community policing. Community policing is a proven law enforcement strategy that helps to prevent drug trafficking and drug-related crime. But more important, it helps the residents of drug-infested communities to reclaim their parks, playgrounds, and streets, and to make them safe once again for our citizens, and especially for our children. Community policing not only reduces the availability of drugs, it can help reduce the demand as well. As a downpayment on the President's pledge to put 100,000 more police on the streets and to dramatically expand community policing, we are seeking $750 million for community policing programs—$200 million in the modified 1993 Supplemental bill, $500 million over two years flowing from the requested authorizations in the President's empowerment zones legislation (both 1993 and 1994), and $50 million in the Justice Department's 1994 budget request.

FEDERAL LAW ENFORCEMENT

Let me state that as committed as this Administration is to expanding support for demand reduction programs, we do not believe such expansion should come at the expense of law enforcement. A successful drug control strategy, in our view, is a comprehensive strategy that applies pressure to the drug problem at every point in the process. The President is requesting $8.3 billion for supply reduction programs, an increase of $392 million or five percent. We are proposing increases for the Bureau of Prisons ($132 million, or 10 percent), the Judiciary ($94 million, or 23 percent), and the Drug Enforcement Administration ($18 million, or 2.3 percent).

You'll note, Mr. Chairman, that much of our increase in supply reduction programs is related to prosecuting and incarcerating drug offenders. These costs have skyrocketed in recent years with the adoption of mandatory minimum sentencing guidelines and the growth of the drug problem generally. I'm certain that you, a former prosecutor, and I, a former police chief, will agree that we should continue to treat drug trafficking and drug use as the crimes they are. However, in making penalties more severe, we've inadvertently made punishment less certain while the cost of housing prisoners has soared. We need more certainty of punishment if we are going to deter crime—particularly drug-related crime. We need to insure that every criminal receives some punishment for his crime—no unrestricted probation, no revolving system of justice.

As a practical matter, given our resources, that means imposing non-traditional punishments on some of these offenders: assignments to work programs, to community service, and to boot camps. The point is simply this: people should know that in this country, if you commit a crime, you will be punished—our lack of prison space or resources is not going to allow you to get off. And to achieve this goal, we have to be far more creative—at the State and local level—in designing potential punishments, particularly for youthful offenders. I intend to work closely with the Attorney General on this issue, and I welcome the views of the Congress and especially the Members of this Subcommittee.

INTERDICTION PROGRAMS

The Administration is in the midst of a review of our international interdiction programs and I intend to conduct my own review of our domestic/border interdiction efforts as soon as possible. As originally proposed, the President's budget sought $1.8 billion for programs to interdict drugs crossing our borders, an increase of one percent over the current year. I may, however, be back with modifications to that budget. Our approach to interdiction will be two-fold: first, interdiction will continue to be an important component of our National Drug Control Strategy; and second, we will work to make sure that our interdiction policies represent an efficient use of our scarce drug-related resources.

INTERNATIONAL PROGRAMS

The Administration believes strongly that cooperative programs with the major drug producing and transshipment nations can play an important role in cutting the flow of drugs at their source. For fiscal year 1994, we are requesting $490 million for international programs. The Administration is also in the midst of a policy review of these programs, and I intend to participate actively in that review. When the review is completed and the President decides how we will proceed, I may be back with additional proposals or modifications.

ONDCP ADMINISTRATION

As you know Mr. Chairman, the President is committed to reducing the White House Staff by 25 percent. He believes too—as do I—that ONDCP can reduce its personnel to help achieve these cuts, and that it can perform its mission well at a reduced staffing level. In achieving these reductions, and in finding ways to make ONDCP a more efficient and more effective agency, I value your extensive experience in this area of legislation, and I pledge to work closely with you and this Subcommittee in revitalizing the Office of National Drug Control Policy. On this subject, let me also say that the President is committed to reauthorizing the Office when its enabling legislation sunsets this Fall. I have read your own draft reauthorization legislation and, as I said in my confirmation hearing, I support the enhancement of the effectiveness of the office. I look forward to working with you and your colleagues on reauthorization.

Before closing, I would like to make a final observation on the budget. The fiscal year 1994 budget was, of course, prepared well before my nomination, and I had no opportunity to participate in its formulation. I do, however, strongly endorse the budget in its goals and in its overall thrusts. I have not yet had the opportunity to review each and every aspect of the budget. If I find areas in which improvements could be made, I will not hesitate to propose them to the Congress and to this Subcommittee.

Finally, let me conclude on a personal note. During my more than thirty-year career in law enforcement I have seen up close what drugs can do, and have done, to our fellow citizens and our communities, and I have been saddened by what I have seen. Saddened, Mr. Chairman, but not discouraged, because I also have seen extraordinary courage not only from law enforcement officers, but also from ordinary citizens who put their lives on the line to confront drugs and violence in their own neighborhoods. As the new Director of ONDCP, I want to make the Federal government a more effective, more stalwart partner with those brave citizens.

STATEMENT OF SENATOR BOND

Senator DECONCINI. I yield to the ranking member, Mr. Bond, for any opening statement he cares to make.

Senator BOND. First, Mr. Chairman, I offer my apologies for arriving late. I had some other duties this morning. I appreciate very much your being before us. I have already looked at the opening statement that the chairman was going to make, and I wanted to say that I share many of the concerns you set forth, Mr. Chairman. The drug war is not over and we have a long way to go. There are a number of questions I have and I will use the question and answer period to bring out some of those.

Senator DECONCINI. Thank you, Senator.

ONDCP STAFFING LEVELS

Dr. Brown, I am pleased that you have already initiated some discussions with the White House, particularly with the President, as to the current staffing levels. It is our observation that we just don't see how you're going to operate with this 25 FTE's. Under the Bush administration there were eight staff people for reviewing agency budget submissions. I am told now that you are down to one. Have you had an opportunity to make any determinations, preliminarily, as to what you think your needs are going to be?

Mr. BROWN. I have started the process but have not reached a conclusion at this point in time. There is no real certain legislative mandate. I have initiated the process to make that determination and that is what precipitated my meeting at the White House in order to address that as a major issue.

Senator DECONCINI. When do you think we might have some of that information? Dr. Brown, I hate to press you, but we have a time restraint here of when we markup this bill, if we are going to do anything other than what the President has requested.

Mr. BROWN. I have made it a top priority.

Senator DECONCINI. Do you think you will have some response from the White House in 1 week, 2 weeks, 10 days, 3 weeks, or what?

Mr. BROWN. We were asked to submit something right away. My goal would be certainly in the first part of next week.

Senator DECONCINI. It is my understanding that there is currently a staff contingency of 52 FTE's at ONDCP. All of these positions, I am told, are career positions. All of the former political appointees have left. I am told that the White House is trying to find jobs for all the 52 career staff currently left at the office.

Do you know if these people may be reconsidered to stay with you if in fact you are successful in laying out a program to expand the office staff from 25?

Mr. BROWN. Some will be considered, certainly. I am now in the process of trying to determine the category positions we need. I will certainly look at the people currently in those positions or in the office and see how they could be fitted in.

Senator DECONCINI. I am not trying to find you a loophole to the President's strong commitment to reduce the Executive Office, but is there consideration of moving the drug czar of ONDCP to outside of the Executive Office so that it doesn't count for that? I realize that is a numbers game, but to me the administration is in a very embarrassing position to make such a cut as they have made and then to have to come back—unless they are bold enough to say that they have made a mistake. I think this President has that capability and has indicated that before.

Is there a possibility to move it someplace?

Mr. BROWN. So far, we have not engaged in that discussion. My discussion started yesterday in essence concerning how to get the resources necessary to do the job.

Senator DECONCINI. As I think you know, we have rejected the $4 million rescission in ONDCP for fiscal year 1993. I took this action, as I believe that you should have an opportunity to review

your spending. Do you have any idea on how this $4 million would be spent?

Mr. BROWN. I don't have any specific answer to your question at this point in time. I am interested in looking at it and conducting an assessment and what we need to do the job. Certainly the resources would be used to fill that need.

Senator DECONCINI. Do you anticipate using detailees on a permanent basis? Is that under consideration?

Mr. BROWN. At this point, detailees are counted in the 25 head count.

Senator DECONCINI. How many detailees are there now?

Mr. BROWN. There are not that many there right now. They are leaving.

Senator DECONCINI. Does anybody know how many?

Mr. CARNES. Mr. Chairman, 14.

Senator DECONCINI. Is that 14 of the 25?

Mr. CARNES. No, sir; 14 of the total onboard. There is a total of 73 people, 14 of whom are detailees.

Senator DECONCINI. When are you supposed to be down to 25? By October 1?

Mr. CARNES. Yes, sir.

SOUTHWEST BORDER

Senator DECONCINI. I have a particular interest in the Southwest border, Dr. Brown. Have you had a chance to familiarize yourself with the Southwest border? What can you share with us concerning that?

Mr. BROWN. My familiarity comes from having to deal with similar problems in other places such as Houston and I spent some time in San Diego looking at the issues there. So I have that familiarity. I have not had a chance to go out personally and take a look, but I intend to do it sometime in the near future.

Senator DECONCINI. I would urge you to do that when time permits. Along our border—and maybe it is true in the metropolitan areas—the State and local law enforcement often make more seizures than the Federal people do. When there is a cooperative effort there, we find much better results, obviously.

You have worked in local law enforcement. Do you think improvements can be made for the cooperation between local and Federal law enforcement, whether it is along the border or any place else?

Mr. BROWN. I am sure improvements can be made. I have had very positive experiences with joint task forces working with the Federal, State, and local agencies in addressing the issue. In my last police commissioner's job in New York, we had a joint law enforcement drug task force with DEA agents as well as State troopers as well as the New York City Police Department. I view that as a model as to what can be done. I am a strong supporter of that type of cooperation.

Senator DECONCINI. What role do you think State and local law enforcement should play in the Federal drug control strategy?

Mr. BROWN. I see that there is a major role that is being played and must continue to be played. I am a strong proponent of the concept of community policing and indeed a mechanism for ad-

dressing not only the problems of drugs but also the problems of crime and violence.

What does that mean? That means that we can look at the problem on a manageable scale bringing to bear the resources to address the problem after looking at the nature of the problem. If you look at the arrests that are made, the vast majority of the arrests made in law enforcement are made at the local level. So it is not just an important role that can be played, it is an important role that is currently being played by State and local law enforcement.

Senator DECONCINI. I anticipate your strategy will attempt to enhance that?

Mr. BROWN. Yes, sir.

MEXICO

Senator DECONCINI. Dr. Brown, I am pleased that you have had a chance to meet with your counterpart from Mexico. I am very concerned about what is going on in Mexico. First of all, there was a real change of direction in that country that started a little bit under President de la Madrid and certainly has moved significantly to deal with corruption and the drug problem. The cooperation is as good, I am told by law enforcement, as it has ever been, at least in the 17 years I have been here.

But I am very disturbed about what intelligence reports reveal to us, what is on the ground in the area of the Colombia cartel. The recent assassination of Cardinal Juan Jesus Pasada to me is more than just what the papers report as being in the line of fire. That cardinal was one of the most outspoken opponents of the drug cartel and had preached such from the pulpit as well as other public places. I just don't believe that it was just an accident.

I am getting to this: The corruption and the involvement and investment in Mexico, outside drug cartels as well as that within the country, is something that I believe the United States has to address with Mexico in a cooperative manner, in a spirit of helping.

I wonder if you have had an opportunity to confirm any of the things that I alluded to here. If you haven't, will you attempt to? And if you do, what should the United States do if in fact what I have alluded to here is occurring, and I believe it is?

Mr. BROWN. There are serious problems there. Other than looking at the opportunities with Mexico, that is one of the reasons I took the opportunity to meet with the top drug official from the country to establish a working relationship to address the problem. Mexico is so close to us, we have to be concerned about what goes on there.

I took the opportunity to ensure a continuing relationship—I will be working on that. In fact, I was extended an invitation to come and visit to see firsthand what is going on. I was also impressed that because of the killing of the cardinal, there has really been an aggressive enforcement effort in Mexico. It is my hope that that enforcement effort will continue and our role should be to join them as partners to help address the issue.

Senator DECONCINI. The new attorney general there is a very impressive man, Mr. Carpiso, coming out of the human rights commission and having already indicted a former supreme court judge and a general for alleged crimes committed in the past. I urge you

to work with the Secretary of State, Attorney General, and the Commissioner of Customs and DEA to attempt to bring about the awareness. I think we may have a lot of intelligence information that they may not have or don't want to admit to.

I don't think it is improper for you to bring some of that to their attention and see what kind of reaction we get from them. I think it is time to ask them once again to take some bold steps in the international drug area.

Mr. BROWN. I was impressed that in our meeting they pointed out that they are creating an institute to deal with the drug issue. It will be a self-sustained institute dealing with the treatment, enforcement, prevention, and international components.

My impression is that they are taking it very seriously. I think it is certainly incumbent upon us to be as supportive as we can. That will be my intent.

COUNTER DRUG TECHNOLOGY ASSESSMENT

Senator DECONCINI. Congress authorized and established the Counter Drug Technology Assessment Center in the drug czar's office. It has only been there for 2 years. You don't have to give us all this information now, but I would certainly like an update on what is actually taking place there. In the past 2 years we have provided direct funding to undertake counter drug research and development of $15 million for fiscal years 1992 and 1993.

Have you had a chance to look at this? Do you think it is a worthwhile thing for us to continue? I understand there is a list of 18 CTAC projects that were selected for funding. Have you had a chance to look at any of those?

Mr. BROWN. I have looked at the list that you're referring to. I will be setting up a meeting with the chief scientist as soon as possible and will respond to your request.

SPECIAL FORFEITURE FUNDS

Senator DECONCINI. I noticed that you had not determined the amount of appropriations from the special forfeiture fund for CTAC. Will that be forthcoming as well?

Mr. BROWN. Yes, sir; that will be forthcoming.

Senator DECONCINI. Regarding that forfeiture fund, Dr. Brown, in 1993 $75 million was appropriated to that fund. This fiscal year the budget is only asking for $28 million. Have you made a determination that that is all that is necessary or is that under review as well? Will we expect some additional information and perhaps request before we markup regarding that?

Mr. BROWN. As you know, the budget was put together prior to my being confirmed, thus I had no input into it. Because of that, I am currently in the process of looking at the budget to determine if it is necessary to come back with some modifications.

Senator DECONCINI. I hope you do because I think this is inadequate for what I believe some of your needs are going to be. You may have more needs—and I hope you do. I hope you have some needs that you articulate in the treatment area. I am very pleased with your statement, Dr. Brown, regarding demand treatment. I guess that term is not very popular, but to me that is really what

you said in a more astute and diplomatic way. I think that is where we have to come down, even if we can't afford it all at once.

HIDTA'S

The high-intensity drug trafficking areas are of great interest to me, as I am sure it is to you, having served in two communities. I have found in Florida that it is significant, particularly when it is used and particularly when the use of that is determined more by local law enforcement than by Federal mandate. In Miami, for example, all jurisdictions and Federal agencies participate in the HIDTA grants. To me, that is the kind of cooperation that your office can really have some input on and can distribute those funds and monitor them.

I urge you to find some personal time, if you can, and continue doing it there. I must compliment you that it is working there. In Arizona we have had some success as well.

Do you believe this allocation of HIDTA grants should rest with ONDCP? Do you think this present staff that is on board down there is enough to administer the grant program?

Mr. BROWN. As you know, I have had experience with the HIDTA program myself. In just one program in New York City we created a joint training center so that we could ensure that all the law enforcement agencies had the same training. That is just one example of how you can do something to improve the enforcement effort under the HIDTA program.

Senator DECONCINI. Do you subscribe to continuation of some of those funds going directly for the local law enforcement to decide how they want to use it?

Mr. BROWN. Yes, sir, I do.

Senator DECONCINI. As well as the Park and Feds have?

Mr. BROWN. My experience, coming from local law enforcement, suggests that they are probably in a better position to determine what should be done.

Senator DECONCINI. I couldn't agree more. I know the Feds also need it, but there are some other resources for some of the Federal agencies. Quite frankly, at the State level, they just do not have it.

You will articulate this HIDTA strategy in your strategy as to how you're going to involve the local law enforcement?

Mr. BROWN. Yes, sir; we will be working immediately on some guidance to the State and local officials about that.

Senator DECONCINI. When will that strategy be prepared?

Mr. BROWN. We are working on it right now. It is a priority to us. People need to know.

Senator DECONCINI. Do you think that is 30 days away, or more?

Mr. BROWN. I think we will get the HIDTA guidance out within 30 days.

Senator DECONCINI. When do you think the full strategy will be?

Mr. BROWN. My target will be to do it within 60 days.

Senator DECONCINI. Thank you.

Senator Bond.

ONDCP STAFFING

Senator BOND. Thank you very much, Mr. Chairman.

Dr. Brown, I would just agree with the points that our chairman has raised. I was very interested to find out about HIDTA myself because it appears to have been an effort that has worked. I have State government background and I am most interested in seeing the Federal Government and the States work closely together.

On the special forfeiture fund, I was frankly very much concerned about that. The chairman has mentioned his interest in Mexico, which must be a concern to us. I recognize, as has been pointed out, that you weren't onboard when these decisions were made. I have expressed my concern in the past and expressed to the chairman my concern that despite this drastic reduction in the drug control policy staff, the Senate just approved last night money for 50 additional FTE's for the White House Office for this year, a proposal for which I have a minimum amount of high enthusiasm. We may visit that later.

Could you give the committee an estimate of what the impact of 25 FTE's—if that is the ultimate number—on the impact of the operation of the office?

Mr. BROWN. Clearly, all the things that are being done could not continue to be done with the reduction of staff. It would mean that we would have to take some of the things we are required to do and put them in other parts of Government in order to carry out the mandates of the legislation. That is the big impact, not being able to carry out all the mandates.

Senator BOND. Have you made a determination or is this one of the things that you are reviewing as to what you would have to sluff off to other areas?

Mr. BROWN. That is what we are trying to determine right now. That is the process I have initiated as of this week.

Senator BOND. Did I understand from the previous discussion that the 25 FTE's would include detailees?

Mr. BROWN. Yes, sir; that is correct.

Senator BOND. So that doesn't give you much room.

One of the areas that the office has fallen behind in the past on is the annual drug strategy and a review of all agencies participating in Federal antidrug efforts and approval of any reprogramming requests. There have been complaints even with a much larger staff that the process has been slow. Do you think this is something that you could accomplish with 25 FTE's?

Mr. BROWN. It would have to be one of our priorities because we are required to produce the national strategy as a major component of the office. We are required to certify the budgets of other agencies. We have to do that. That would be a priority, which means that other things would have to go by the wayside.

Senator BOND. Do you have any idea what would happen to the 20,000 square feet that you are losing in the White House? Does that come within your jurisdiction?

Mr. BROWN. I have not addressed that.

Senator BOND. You said on the HIDTA that you are working on that and will have answers in the next 30 days. We will look forward to those answers.

SPECIAL FORFEITURE FUND

With regard to the special forfeiture fund, the almost $50 million cut—that doesn't reflect a judgment, does it, that there will be fewer deposits into the fund, does it?

Mr. BROWN. In some respects, it does reflect decreased deposits.

Senator BOND. Why is that? Why do you think there will be fewer deposits?

Mr. BROWN. I will have to get back with you with an answer to that. That is something I am looking at right now. I am told that that was not the only reason, but let me get back to you with an answer to that question.

Senator BOND. I would be interested if you think that that whole figure is a result of decreased funds coming into the fund. If not, I would like to know specifically what the excess is going to be used for. It seems to me that we have a lot of use for those forfeiture funds. I would be reluctant just to turn them back.

Mr. BROWN. I will get an answer to you right away.

Senator BOND. Mr. Chairman, I appreciate the fact that Dr. Brown does have a lot of work to do. I think that we will have to review or perhaps even visit with Dr. Brown again when he has reviewed all these matters.

I realize that this is a tough challenge and I can certainly understand your position, not having had time to review it, but the chairman has indicated his obvious direct interest in this and I would join with him in saying that this is an area where I, too, share his concerns. We will look forward to hearing more from you.

Senator DECONCINI. Thank you, Senator Bond. I think that is a good idea. After the director has had an opportunity to put some of this in place, we will have him back to review some of it again with us.

Senator Kerrey.

Senator KERREY. Thank you, Mr. Chairman.

EMPLOYMENT AS DRUG REDUCTION MEASURE

Dr. Brown, it is good to see you.

This is a very interesting issue to me, I must say, because never since I have been involved in politics have I seen an issue quite come and go as this one has where a few years ago it was America's No. 1 issue and suddenly now it has been driven off the radar screen, in spite of the fact that we have increased violence, as you know better than anybody sitting in this room, having been chief of police in New York City. The rising amount of violence, particularly amongst young people, to me is the most disturbing trend that I see in America today.

I was at an event in Omaha, NE, over the weekend and there was a man who had traveled there from Kansas City, MO, and said to me that our young people are going to mortuaries in Kansas City today prepaying with cash for their own funerals hoping to die young and free. That was the line that he said they were using.

That is just a symptom, it seems to me, of the problem, and the most disturbing symptom. If there weren't violence and destruction of life and property associated with drugs in America I suspect that

it wouldn't be as big a concern. But we see increasing amounts of violence and destruction of life and property.

I would like to suggest, Dr. Brown, that one of the things that very often happens around here is a great debate as to whether or not we are making progress. Sometimes it is as a consequence of genuine interest in whether or not progress is being made. Sometimes it is a consequence of a desire to score political points. Either way, we need some kind of benchmark, I think, to determine whether or not we are making progress. We need some sense of what it is we are going to use as a guide.

I must tell you that from my own standpoint the most reliable guide I can come up with—and I appreciate your suggestions as to whether or not the guide is a reliable one or whether or not you have some other measures you would use—is my success in decreasing teenage unemployment and finding jobs for young people, helping them acquire the skills that they need to survive in a very difficult international marketplace where skill level is going to determine whether or not you are going to be successful.

Thus, specifically as an example, we have a project in Omaha called Gateway that was started—I provide some assistance, but the head of the housing authority there, Bob Armstrong, really deserves most of the credit. It is sort of an inch-by-bloody-inch proposal. There are 26 people who are going through a 4-year program. The program doesn't exist except that Bob was able to get the housing authority to sign a contract to purchase their screen doors and windows from this operation. Now you have 26 people learning and acquiring the skill.

A larger operation in Detroit, Focus Hope, where once again Father Cunningham, who runs the program, says that he can't make the program work if they are manufacturing ash trays for Grandma. That is his terminology. He has a contract with Detroit Diesel and he has a contract with the U.S. Army and he has a contract with Ford Motor Co. These contracts allow people to come into a 6-year program of engineering training. And when they are done, not only do they have a job, but they have the earning capacity where Father Cunningham can go to them and ask them to contribute back.

He said, "That is a measure of my success, when they are targets for my fundraising efforts."

It seems to me that jobs—community leaders in North Omaha, where our No. 1 law enforcement problem is, tell me that if we can find jobs for our young people we wouldn't have a drug problem and we wouldn't have a gang problem.

So in my own simple way, I am trying to come up with a benchmark. I say the benchmark we ought to be using is not the number of arrests we make, not our success in getting convictions—both of which are important—but our success in being able to employ people.

I give you another concrete community example. This is certainly not your fault, but it is our fault. Community leaders are struggling to keep the Boys Club open. They pick up and read in the newspaper on the very weekend that they are struggling to come up with $50,000 to keep a Boys Club open in an area where it is the only safe haven that these adolescents have and see that we

are going to build a new courthouse for $90 million in the downtown area. They say, "That is terrific. We are going to close the Boys Club and then our kids are going to have a nice, fancy, new courthouse to go get sentenced to the joint."

It seems to me that we are struggling for a variety of reasons to get resources to adolescents. I apologize for the long question, but I am curious and very interested to know whether or not you think that the benchmark of jobs—and we could establish a benchmark easily. I could give you what my teenage unemployment rate is and I could give you specifically the number of people who are out of work. It seems to me that we could use that as a benchmark over a 4-year period to determine whether or not we are going to be successful.

Mr. BROWN. I think you have outlined very clearly the complexity of the problem we're dealing with associated with drugs.

In New York City, I have said many times to my constituents there and to anyone who would listen that the one choice of dealing with the problem of crime, drug, and violence would be meaningful employment for every American who wasn't able to work. I think what you have talked about here is consistent with what I believe.

That is not the case right now. We do not have ample jobs for everyone. I think it is very important to address the issue from an enforcement standpoint because people suffer on the streets of Omaha and every other large city and increasingly in smaller towns as well and our rural areas. They are suffering from the drug problem.

We have to deal with education and prevention. We have to save an upcoming generation from the problems of drugs. We have to treat the addict. Part of the drug problem is the addict. If you don't treat the addict and don't have the available resources to do that, that person is going to continue in the habit and continue to get the drugs and continue his crimes.

It is not a simple matter. That is why I think it is very important that the position I now occupy is part of the President's cabinet so that we talk about other issues, whether it is a job, economic policy, foreign policy—I can make my input from the standpoint of what it means as far as addressing the issue of drugs in America is concerned.

I talk a lot about community policing. I have seen that as a concept that is also applicable to address some of the urban decay issues that we see where you take, on a manageable scale, a neighborhood—not the whole city, because it is not very meaningful to say that you're going to reduce crime in Omaha, it is much more meaningful to say that you're dealing with one neighborhood to make a difference.

A lot can be done, but jobs play a very critical role. But it would have to be meaningful employment so that people can earn a living to take care of their families and do what is necessary to have a decent, quality life.

Senator KERREY. The jobs issue is a very difficult one. I must say that my own confidence in the Federal Government's capacity to do it isn't very great. It seems to me that you do have to have a meaningful partnership at the local level, meaningful private sector partners, city partners, county partners, State partners, and a Fed-

eral partner, all of whom are willing to hold themselves accountable.

I cite this Gateway project because you walk inside that operation and you can see progress. The taxpayer could walk in there and say, "This is worth the money." There is no question about it. You don't have to do an audit. You don't have to come to a Senate hearing and get grilled. When you walk in that environment, you see that it is working.

You see the same thing in Focus Hope in Detroit. Your eyes tell you right away and you can see the value being added to people. In my mind, in both of those examples, they have a critical element in that they have a contract to produce something of value so that the work being done becomes meaningful directly as a consequence of that.

People understand that they are producing something for the marketplace and something that does indeed have value. It isn't an ashtray for Grandma, it is in fact a very important component of Detroit Diesel's manufacturing operation, Ford Motor Co.'s manufacturing operation, and the U.S. Army's operation.

I don't know if you have had other experiences like that where you can help us figure out how to bring that key word "meaningful" in there to the employment idea. I am strongly of the opinion that though it is complicated by family difficulty, it is complicated by the number—whatever it is, big or small—of people that are just violent and difficult and you have to get them off the street and away from everybody else, it is complicated by rules and regulations that are sometimes at odds with what we are trying to do, both Federal and State.

But in that complicated atmosphere and that fog of stuff comes the moment when you have to decide, Are we making progress? I urge you to at least consider whether or not just the benchmark of jobs, where we as politicians and you as the drug czar say, "That is our standard. We will determine where we are today and we will try 4 years from now to have made progress, even if we have made progress with 100 or 1,000. We will get some sense that indeed we can make some progress"—of all the frustrating things with the issue of drugs, one of the reasons it has come off the radar screen is that Americans are sort of saying, "Maybe there is not much you can do about it."

We are spending a lot of money and a lot of time and a lot of heartache, and we just feel as though there isn't much progress.

Mr. BROWN. I share your observation and concern. As I look at what goes on throughout America, there is a sense of hopelessness not only among those who are disadvantaged, but those of us who are advantaged, those of us who have jobs, those of us who have education, those of us who have health care because of exactly what you have said. There is a feeling that whatever we do is not going to make a difference. I am convinced that we can make a difference.

You have cited a program and we can all cite programs that are doing a good job. One of the things that I want to do is to highlight those programs. Right now, the problem seems bigger than all the things we are doing to address it. I think if we look at it on a manageable scale and have a program like you talked about in your

State and fellowship on those programs, then the approach to the problem becomes bigger than the problem and that will end the sense of hopelessness we see throughout America right now.

Senator KERREY. I think what I am suggesting is very much as you have said, not only highlight the successes, but try to find where the common element is. Senator Bond has been leading an effort with parents and teachers, but I suspect there is a cause and effect relationship between that effort and success in producing young people that can find work, that pay attention in school, that do well in school, that choose a productive, happy life instead of a destructive end-game life of drug consumption and violence.

Mr. BROWN. Unfortunately, we have not studied the success stories. We have always studied the failures, those who are in trouble, those who in our jails, and those who are in our prisons.

Senator KERREY. And what I hope doesn't happen to you in this job is that we don't study this thing to death. You are an action person. You have been on the street before. I suspect the word "doctor" in front of your name doesn't imply that there is an academic preference in your own attitude toward this problem.

I hope that this doesn't become a ritual of producing reports, documents, studies, and all that sort of stuff. I think there is a willingness on the part of Republicans and Democrats here in the Senate and in the Congress. If you say, "Here is a common element where we have achieved some success"—whether it is Saint Louis, Kansas City, or Omaha, or Phoenix, or Tucson, or wherever it is—"Here is a common element that has allowed these four or five programs to work, but here are some specific changes that we need to make in order to make just that little bit of progress and give people confidence that this thing is working," I think you would find people up here willing to break down the walls of bureaucracy and paperwork that very often separate us from doing the right thing.

Mr. BROWN. I intend to do that. You can see some of it coming out of the budget that the President submitted. I have been pushing this for my whole career. When I was in New York, for example, in my second year there we saw crime go down in all index categories for the first time in 36 years because of bringing together people and the police and other agencies of government and the private sector to make a difference.

It will be my objective to determine what works. We should focus our attention on things that do work and not continue to implement programs that are not giving the success that we want.

Senator KERREY. Thank you.

DOD SUPPORT

Senator DECONCINI. Thank you, Senator Kerrey.

Along that line, let me just followup.

There are so many programs that work that need attention. A couple of years ago we had a vote on the floor to transfer $100 million from the Defense Department over to HHS for a program to assist drug addicted mothers to stay with their children during treatment. We lost that amendment by three votes. But those programs have already proven to be successful. We have tried a few of them, but there just aren't the resources, nor is there the leadership from the administration saying that we should do this.

Along the line of the Defense Department budget, you see that approximately $1.1 billion is in the budget this year and for fiscal year 1994 they are asking $1.2 billion. I can't think of a better area to spend some of these dollars in the Defense budget than on the war on drugs.

What do you intend to do in order to ensure that State and local law enforcement get a share of these resources? There are so many examples, Dr. Brown, where transfer of helicopters from the Defense Department that are in storage or not going to be used, but yet there is no O&M money, whether to the Border Patrol, a Federal agency, or to a local law enforcement agency. The failure of DOD to reimburse Customs for flying the airplanes down at Southcom and Panama are areas that I think the director needs to be involved in and get on top of to see that those funds are used.

The temptation of the Defense Department is to put these funds into training, and thereby designate missions that are affiliated or directly related to drug enforcement. There they get two bucks for the dollar, so to speak. I do not think these funds were intended for training dollars. They were intended for hands-on enforcement purposes and programs.

I trust you will visit with General Joulwan, you will spend some time getting the Defense dollars appropriately designated.

Mr. BROWN. I will be looking at that. Prior to my being confirmed by the Senate, there was a review initiated to look at what is being done in terms of interdiction with the Defense Department and others. At my request, that was put on hold so that I could have a chance to have my input into it. I intend to do that.

INTERDICTION

Senator DECONCINI. On interdiction, Dr. Brown, your testimony states that the administration is in the midst of reviewing the international interdiction program and that you intend to conduct your own review of domestic border interdiction efforts as soon as possible.

Mr. BROWN. Yes, sir.

Senator DECONCINI. You also state that the President's budget includes $1.8 billion for interdiction and that you may, however, be proposing modifications to that budget.

Can you tell us what you mean by that? Will this have any effect on the Customs missions or the Border Patrol missions or the other efforts on the Southwest border?

Mr. BROWN. It relates to what I stated earlier. We need to make an assessment of what we're doing. What is working? What is not working? The modification could very well be in the programmatic aspect and not necessarily the dollar figure. But that assessment has not been conducted yet. So we may very well want to make some modifications with what we are doing, based upon what we determine is working.

Senator DECONCINI. There is a lot of criticism of our effort in interdiction, whether it is on the ground, the marine, or the air. I wholeheartedly support efforts, and have in fact been responsible for increased treatment and education money, but I don't believe we can have an effective drug control strategy without a program

to intercept and reduce the supply. Do you agree with that principle?

Mr. BROWN. Certainly. My approach will be a comprehensive approach. That means we will also have interdiction as part of our approach.

Senator DECONCINI. You don't think that interdiction should be sacrificed for demand reduction? You think that you need both of these?

Mr. BROWN. Yes, sir; we need both of them. And even in that context, I am concerned because I have been informed that a House subcommittee has reduced the amount of money that we will have for drug treatment. That is something I would like to get your help on because it takes away resources to address the problem we are trying to work on right now.

Senator DECONCINI. I hate to preach, but it just seems to me, Dr. Brown, that you have a great opportunity, even with the limitations that your jurisdiction has to identify a source of funds, to appeal to the President and consequently to the Congress to reallocate for treatment dollars, whether it is from the Defense budget or some other area. I truly hope you do that.

I presume that under your consideration and plans you are looking at the Andean strategy, Colombia, and other parts of South America. Is that right?

Mr. BROWN. That is certainly a priority of mine. I might also add that there have been some significant cuts in funding for international drug control programs as well in the House committee that you might want to keep an eye on as well.

Senator DECONCINI. I think when you get a chance to discuss this with General Joulwan—and he has agreed to come up here and testify before the Defense Appropriations Subcommittee—and perhaps sooner or later you will have a chance to sit down with him and participate on what his high praise of Customs and military involvement down there as well as the intelligence community and law enforcement as relating to the international area. Certainly we ought not to diminish the commitment we have made there.

Mr. BROWN. I have already established a meeting with him that will be coming up very shortly.

THE PRESIDENT'S DRUG BUDGET

Senator DECONCINI. OMB submitted in April of this year the Federal drug control program budget summary. I realize that you were not part of that team and had no chance to review it. I hope that you will. OMB Director Panetta announced at our subcommittee hearing that he had authority from the President to waive the reductions in high-priority areas if an agency head came to him and made a good case, particularly in law enforcement, to which I am making reference.

This being the case, Dr. Brown, don't you think it would be a good idea to ask Mr. Panetta for exemption from the Executive order for those drug control programs that are proposed for reduction?

Mr. BROWN. I share your concern. I am in the process of looking at that trying to find out the reasons that such a reduction was proposed. I will address that as an issue.

Senator DECONCINI. I just find it very difficult to come to any rational conclusion and to understand how the President's budget on the one hand can request $200 million for 100,000 community police officers while at the same time cutting law enforcement personnel. With Panetta coming back with an answer to that that he has the authority from the President to waive those reductions if the case can be made, to me that is the perfect case for the drug czar to focus on if you think it is justified. If you don't, then you can't very well do it. But I trust that you will look at that.

Mr. BROWN. I will take advantage of that opening.

Senator DECONCINI. Well, I have some other questions and I will submit them for the record.

I certainly look forward, Dr. Brown, to your proposals as to enhancing the treatment and education aspects of our war on drugs and not diminishing the enforcement. I think we have an opportunity here, even with the very limited resources this year, to make a dramatic statement and movement in the drug area. I don't think we could have a better person than yourself, but also a great challenge. I have talked to the President about it and he certainly seems to be committed, if someone will just keep reminding him.

Mr. BROWN. That is my job. I will do that.

Senator DECONCINI. If you keep pressing him and asking him to do it, I think he will.

Senator Bond, do you have any further questions?

Senator BOND. Mr. Chairman, I am delighted to hear the strong commitment to continued efforts on interdiction. I think that is very important, as I said earlier. We really want to sit down with you and see your review and your conclusions when you have had an opportunity to review the position of the office and what it should take.

Mr. Chairman, unfortunately, I have a hearing in Banking on a subject I have put a lot of effort in on encouraging our exports and I have to go to that meeting to talk to the Secretary before he gets away. I have read Ms. Stasch's testimony and I will have some questions that I will have to submit for the record. But as always, we have one too many things going on.

Dr. Brown, it was a pleasure to have a chance to get acquainted with you. I am sure that we will have many opportunities in the future. I look forward to working with you.

Thank you, Mr. Chairman.

SUBMITTED QUESTIONS

Senator DECONCINI. Dr. Brown, thank you very much. We look forward to working with you. We will submit the additional questions for the record.

Mr. BROWN. Thank you, Mr. Chairman.

[A brief recess was taken.]

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR DeCONCINI

SOUTHWEST BORDER

Question. The Southwest Border has been considered the number one transit area for cocainecoming into the United States for quite sometime. Do you believe that this continues to be the case? What would be ONDCP's strategy here? What resources will you commit to the Southwest Border?

Answer. Current evidence suggests that the majority of cocaine entering the U.S. does so via the southwestern land border with Mexico. Deliveries via general aviation aircraft to Mexico and Central America remain the favored method of delivery, probably accounting for the majority of the U.S. supply. This cocaine is transported from its delivery site to the U.S. border via land vehicles. Additionally, cocaine is delivered via private and commercial vessel to the Mexican and Guatemalan coasts for further transport into the U.S. via the land border.

I intend to review all domestic supply reduction programs, including those along the Southwest Border. After I determine what works and what doesn't, I will make my recommendations to the President and publish his priorities in the National Drug Control Strategy.

In addition to those resources dedicated to the Southwest Border by all the Federal Drug Control Agencies by FY 1994, I intend to allocate approximately $18 million to the Federal agencies and $18 million to the State and local agencies of the Southwest Border HIDTA. I would also note that the Department of Defense again plans to devote a significant portion of their FY 1994 1004 funding appropriation to aid Federal, State, and local drug law enforcement agencies along the Southwest Border through JTF-6.

SOUTHWEST BORDER PRIORITY

Question. What level of priority is the Southwest border to this Administration?

Answer. It is a high priority since the majority of the illicit drugs entering this country are coming across the Southwest border. As a result, this area receives special attention as one of the five High Intensity Drug Trafficking Areas.

STATE AND LOCAL ENFORCEMENT

Question. What role will state and local law enforcement play in your drug control strategy? What portion of the resources will be allocated to the state and locals?

Answer. State and local law enforcement is one of the mainstays, along with the international and interdiction programs, of our supply reduction effort. I intend to do everything I can to assist State and local law enforcement agencies in their efforts to eliminate drug trafficking in our communities. Currently, assistance to State and local governments for law enforcement totals nearly $1.1 billion.

AIR DRUG INTERDICTION PROGRAM

Question. While I agree that we need to place greater emphasis and more resources into treatment and education, I don't believe you can have an effective drug control strategy without programs to interrupt and reduce the supply. Do you agree? Can you tell me your views on drug interdiction programs and air interdiction specifically?

Answer. Yes, I agree the supply reduction programs are critical to our efforts to solve this country's drug-related problems. But at the same time, we need to increase the emphasis on treatment and education.

In an ideal world, the international programs would eliminate the cocaine supply at the source and our treatment and education programs would eliminate the demand for cocaine here at home. We are working towards this ideal, but until we get there, we must have a vigorous interdiction program if our Strategy is to be effective.

The air interdiction program is maturing and improving. This program has forced significant shifts in the traffickers' air operations. They no longer fly their loads directly into this country or into Northern Mexico. They deliver their cargo into Southern Mexico and Guatemala and then by a long overland route to the Southwest Border. They are increasingly making airdrops rather than landings to avoid apprehension. These changes make their operations more difficult and expensive. With the support of our Latin American allies we will continue to improve the end-game making the traffickers' air operations even more costly and pushing them further from our borders.

CUSTOMS P-3 PROGRAM

Question. Have you had a chance to review this [the Customs P-3] program, be briefed by Customs, and are you familiar with the operation of the P-3's?

Answer. While I am aware of the significant contributions of the U. S. Customs Service air program, I am not as familiar with the capabilities of their P-3's as I would like to be. It is my intention to meet with Commissioner Weise in the near future. We will

discuss the air program and the P-3 aircraft at that time.

IRS-CID DIRECT-LINE AUTHORITY

Question. Dr. Brown, I know you have been appointed to the task force to review CID that I mandated in last year's Treasury bill. But, I was wondering if you were familiar with this issue and if so I would be interested in your views, particularly whether you believe that CID can get the support it needs to properly support money laundering investigations and other narcotics related investigations without line authority?

Answer. The IRS has made some structural changes to improve the effectiveness of the CID in money laundering and other narcotics related investigations. I understand these changes fall short of the direct authority referred to in your question.

My representative on the study committee that is examining this issue is my acting Deputy Director for Supply Reduction. The study committee met in December 1992 to identify the issues relating to the management of the CID. Their second meeting, delayed by the new Administration's transition process, was held on June 17, 1993.

A third meeting was held on July 12, 1993 to review the IRS recommendations that address the issues contained in the FY 1993 Treasury Appropriations Bill. The Assistant Secretary of the Treasury for Enforcement and the Commissioner of the IRS are now drafting the final report to be submitted to the study committee for approval, prior to forwarding to the House and Senate Appropriations Committees.

UNFUNDED THERMAL IMAGING SYSTEMS

Question. Last year, this subcommittee identified language in its FY-93 report that directed the ONDCP to report to the Committee by February 1, 1993, on the unfunded requirements of thermal imaging systems for the Federal agencies engaged in the antidrug effort. While I recognize the fact that many things have happened in your agency over the course of the last 11 months since this language was passed by the Senate, I am troubled by the fact that this report is still incomplete. What is the projected date of completion and when can I expect to be briefed on its findings?

Answer. The ONDCP staff is actively engaged in the process of complying with the subcommittee's direction. It is my intention to have the report to you by the end of the year.

HIDTAs

Question. In the absence of a specific earmark for state and locals, can you please share with this Committee how you plan to distribute this $86 million among the HIDTAs and State and local agencies?

Answer. To amplify the value of the regional partnerships, I am raising the State and local portion of the distribution to an equal share with the Federal portion. This affirms the equal partnership between the Federal agencies and the State and local agencies.

To maintain the momentum being built in the HIDTAs, I intend to use roughly the same distribution formula between HIDTAs as was used in the past. This translates to about $38 million for the Southwest Border HIDTA and $12 million each for the metropolitan HIDTAs.

Question. Dr. Brown, I know you have not been in your current position for very long but, I was wondering if you have had a chance to conduct any reviews which may or may not warrant additional HIDTAs? If so, what were the conclusions?

Answer. I have not had the opportunity to conduct a detailed analysis; however, there appears to be consensus that other areas are not experiencing the same magnitude of drug trafficking as the five HIDTA "gateways."

Nevertheless, there are other areas which might benefit from the HIDTA regional partnership paradigm and additional resources. I hope to address this as we develop our Strategy.

Question. Dr. Brown, have you given any thought about the establishment of a program for mini-HIDTAs, i.e., for communities which continue to have very high rates of drug related crimes, including homicides, and where gang activity seems to be a contributing factor?

Answer. I plan to review existing programs which attempt to address this problem. I intend to support those programs which work and eliminate those which don't give the country the best return on its investment. It may be that a HIDTA-type program and resources may be needed to tie together the Federal, State, and local resources being used to address the problem.

Question. Dr. Brown, since you have taken office, have you developed any criteria for the HIDTA coordinators to use in the allocation of HIDTA funds? If so, can you please give this Committee an understanding of what you expect to recommend to the Coordinators?

Answer. I have approved the criteria based on recommendations from the National HIDTA Committee. The criteria are contained in the FY 1994 Program Guidance that has been forwarded to your office and to the five HIDTAs.

COORDINATING FEDERAL AGENCY EFFORTS

Question. Is this Administration, and you in particular, doing anything to coordinate prevention and rehabilitation efforts coming out of our different federal agencies, HHS and DOJ, for example?

Answer. Coordinating Federal drug policy is a primary responsibility of the Office of National Drug Control Policy. As I have stated, I am committed to working with the other members of the President's cabinet to develop effective, coordinated, and lasting public policy in the areas of prevention, education, treatment, enforcement, and interdiction. In this regard, I have begun meeting with representatives of the various departments and agencies, and I will work with these agencies to develop the interim drug strategy that will be released to the Congress in September.

MEXICO

Question. It is clear that the U.S. cannot be truly successful without an all out effort by Mexico. What do you propose that the U.S. do to help Mexico?

Answer. U.S. assistance to Mexico is limited to technical advice, training and support in law enforcement, intelligence, and demand reduction activities. Following Mexico's policy announcement to "Mexicanize" their drug effort, U.S. funding for programs in Mexico has dipped to about $1.5 million for FY93. However, the activities mentioned above will continue.

The U.S. has provided CENDRO, Mexico's all-source intelligence center, with advice and support, and is currently ironing out an information exchange regime with the GOM.

The U.S. should continue to provide assistance to Mexico's interdiction units as well as technical advice and assistance on their eradication campaign. We should be as helpful as we can in assisting Mexico in bringing top kingpins to justice.

Question. What truth is there, if any, to the reports of resources provided by the U.S. being under utilized by Mexico?

Answer. GAO recently issued a report that criticized Mexico's Northern Border Response Force (NBRF). The GAO report evaluates a U.S. and Mexican

effort to introduce helicopters into Mexico's Northern Border Response Force (NBRF) program. The U.S. leased 21 helicopters to Mexico in 1991 and 1992. The GAO report covers several problems we have encountered, such as delays in equipment delivery because of DESERT STORM and in some cases equipment unavailability. Consequently, the 21 helicopters have not been deployed as originally planned.

The NBRF scored early successes that caused the drug traffickers to shift their operations to other areas of Mexico and Central America. This forced the NBRF to cover larger areas with the same equipment and personnel. The U.S. supplied helicopters are limited in range and speed, so the traffickers shift has reduced their usefulness. We are working with Mexico on ways to make the best use of the helicopters, such as in secondary investigations and interdictions.

The GAO report acknowledged successes in the overall air interdiction program in Mexico. Since its formation in 1990, the NBRF has seized 85 metric tons of cocaine and disrupted air transport of drugs through Mexico.

Question. In your opinion is the government of Mexico committed to combatting the violence, the use of bribery, threats and the tremendous economic influence of drug trafficking?

Answer. Yes. The Government of Mexico is committed to fighting all aspects of the drug trade from drug use to trafficking and production. The GOM claims to have arrested over 86,000 people (including police and military) for narcotics offenses during the past four years.

The recent assassination of Cardinal Posadas focused the spotlight on Mexico's trafficking problem more brightly. However, the Government of Mexico has been one of the United States best international partners in the war on drugs. The U.S. and Mexico will continue to cooperate on intelligence, law enforcement, and customs inspection programs.

Following the Posadas assassination, the Salinas Administration stated its intention to more vigorously pursue Mexican drug trafficking organizations on all fronts, including money laundering and arms trafficking. The U.S. should support the Government of Mexico with whatever technical expertise and advice that are available.

Despite the recent negative publicity, Mexico made significant gains in their 1992 drug control efforts.

- Mexico's air interdiction program netted 28 metric tons of cocaine, 17 aircraft, numerous vehicles and 96 arrests.

- The GOM created an all-source counternarcotics intelligence center.

- The GOM assumed overall financial responsibility for their counternarcotics efforts, after many years of U.S. assistance.

- The GOM has worked to weed out corrupt officials and law enforcement personnel. The appointment of Jorge Capizo, the former human rights coordinator, as Attorney General is a positive sign that the Salinas Administration will do more to protect human rights and improve the integrity of GOM entities involved in the drug fight.

Question. On January 14, 1993, the Government of Mexico enacted, through the Office of the Attorney General of the Republic, 27 strategic actions to improve law enforcement and public safety; to effectively combat impunity while strictly observing human rights and the rule of law in pursuing criminals. I'd appreciate your thoughts on these 27 strategic actions.

Answer. I view these statements as another sign of the seriousness with which the Salinas Administration intends to confront all aspects of the drug problem within Mexican society. Ensuring the integrity of the government in responding to the drug threat is of paramount importance, and I applaud the GOM's desire to do more to fight corruption.

INTERNATIONAL POLICY & PRD-18

Question. Can you tell us the current status of PRD-18 and whether or not you will have control over international drug control policy?

Answer. On behalf of the President I will oversee the development, coordination and implementation of overseas counternarcotics strategy and policy. In this capacity, I have reviewed PRD-18 and intend to work with the National Security Council staff and other interested agencies to complete the policy review in the near future.

GENERAL SERVICES ADMINISTRATION

STATEMENT OF JULIA M. STASCH, ACTING ADMINISTRATOR

ACCOMPANIED BY:

DENNIS J. FISCHER, ACTING DEPUTY ADMINISTRATOR
WILLIAM B. EARLY, JR., ACTING CHIEF FINANCIAL OFFICER
DAVID L. BIBB, ASSISTANT COMMISSIONER FOR PLANNING
TIM ARNADE, BORDER PROJECTS COORDINATOR FOR PLANNING

INTRODUCTION OF WITNESSES

Senator DECONCINI. Our next panel of witnesses consists of representatives of the General Services Administration. Testifying on behalf of GSA are Julia M. Stasch, Acting Administrator; Dennis J. Fischer, Acting Deputy Administrator; William B. Early, Jr., Acting Chief Financial Officer; David L. Bibb, Assistant Commissioner for Planning; and Tim Arnade, Border Projects Coordinator for Planning. I want to note at this time that Roger Johnson, the President's nominee for GSA Administrator, has not yet been confirmed and that is why he is not here today.

Madam Administrator, we welcome you to the subcommittee. The fiscal year 1994 budget for the General Services Administration totals $5.5 billion or $300 million above the fiscal year 1993 level. For the construction budget, you have requested $747 million or an increase of $121 million above the fiscal year 1993 level.

Madam Administrator, there are many issues concerning GSA's construction, repairs and alterations, and other programs. Because we are running late, I will ask that you summarize your opening statement so that we can proceed directly to questions.

STATEMENT OF JULIA M. STASCH

Ms. STASCH. Thank you very much.

It is my pleasure to appear before you today to testify on behalf of GSA's fiscal year 1994 budget request. I have a very short statement that highlights our request.

GSA's fiscal year program will total about $11 billion. Most of this will be financed by our customers either by rental payments or reimbursements and payments to revolving funds for goods and services. Less than 2 percent of our funding will come from appropriations made directly to GSA. This increment basically supports management and oversight of our programs, and is vitally important to the agency.

The budget request for discretionary new appropriations is $193.7 million. This is $329.4 million below amounts enacted for fiscal year 1993. This was because no appropriations are being requested in the budget year to help finance capital acquisitions under the Federal Buildings Fund or to meet the expenses of a Presidential transition.

In total, appropriations requested for ongoing operating, management, and oversight functions are slightly below fiscal year 1993 levels, even after accommodating the annualized costs of January 1993 pay raises and the effects of inflation. As you know, no new pay raises are indicated in fiscal year 1994 and the budget already anticipates savings from a number of initiatives. For example, GSA staffing will be 627 FTE's below actual fiscal year 1992 levels.

Under the Federal Buildings Fund, GSA is requesting $5.1 billion in fiscal year 1994 new obligational authority for the full range of property activities. As previously noted, we are not requesting appropriations for major capital acquisitions under the fund.

The fiscal year 1994 request for capital programs totals $1.6 billion, including $747 million for a construction and acquisition of facilities program that is largely in support of the judiciary. This includes projects for construction and expansion of courthouses and site funds for court projects that will be included in future budgets.

At $119.1 million, the installment acquisitions payments program reflects a decrease of $26 million from fiscal year 1993, primarily as a result of refinancing a majority of purchase contract projects through the Federal Financing Bank to take advantage of current low market interest rates.

Over $2.1 billion is budgeted for rental of space activities that provide for payments of existing leases, projected new leases, and buildings services furnished by lessors under the terms of lease agreements. The program assumes 900,000 square feet of new expansion space and the $1.2 billion requested for real property operations will provide for basic services to tenant agencies at the same levels as in fiscal year 1993.

I would like to quickly also bring you up to date on developments and accomplishments in certain other programs of special interest.

The offices of FTS–2000 completed the price redetermination/service reallocation process for year four of the contracts this past year, and projected savings over the remaining life of the contracts are now about $450 million. The General Accounting Office determined that FTS–2000 prices were generally below the best commercial rates at that time.

In addition, with the cooperation of the Department of Energy and other services, we are aggressively pursuing efforts to introduce alternative fuel vehicles into the Federal fleet. For fiscal year 1993, GSA will probably exceed its goal of 3,000 alternative fuel vehicle acquisitions and we will be acquiring 6,000 to 8,000 more of them in fiscal year 1994.

This concludes the formal summary overview of the fiscal year 1994 program. I would also like to thank you in advance for your indulgence of the fact that I have been on the job for only a few days and will not be able to answer your questions in the detail to which you have been accustomed from the Administrator.

The staff here is prepared to answer any questions you may have with respect to the status of any project or initiative, but I would like to tell you briefly about my background and how I anticipate working with Roger Johnson, if he is honored with confirmation.

As president of a major real estate company in Chicago, I have extensive industry experience. I also have specific experience in the Federal process through my former company's successful develop-

ment of the Metcalfe Federal Building as well as its role as an unsuccessful offeror on two major projects, including the much maligned Federal Triangle Building.

SUSPENSION AND REVIEW OF PROJECTS

I make these points by way of background for an early initiative toward which Roger Johnson has indicated he is leaning very strongly. This has been characterized as a period of suspend and review of projects within the responsibility of the Public Buildings Service, a sort of timeout, the type of investigation that would be undertaken by any executive assuming responsibility for major assets and activities; an imperative for a program of a multibillion-dollar magnitude.

If implemented, this timeout will permit us to review all projects other than those already under construction or which address conditions related to fire and life safety for purposes such as to revalidate the agency or tenant requirements, to confirm that all viable alternatives were fully explored, and to evaluate whether or not the recommended solution is indeed the most cost-effective use of taxpayer dollars.

We have been told that this can be completed in an expeditious manner within a period of 3 to 6 months. We believe that it would serve to increase the level of confidence that decisions are being made with cost-effectiveness as the imperative.

In the meantime, of course, the current budget process must proceed. The projects for which funding is being sought will be subject to the same review and to the extent that any of them appear to warrant a relook, particularly in light of any possible modifications to the rules such as scoring, or the availability of other tools currently under discussion within the context of the national performance review. We want to work with you and the other appropriate bodies in accordance with your established process to amend any projects to achieve the overall goal of cost-effectiveness.

While review of specific projects is underway, there can also be a careful look at the entire process to identify areas for improvement in timeliness of delivery and integrity of analysis. You can rest assured that this possible approach, which I am in the process of developing in conjunction with PBS staff and will be recommending to Roger Johnson, will be timely, equitable, and broad in scope with the goal of mitigating unnecessary expenditure.

With this as a backdrop—and as I mentioned, I have submitted a complete statement for the record—we are here at the table to respond to any questions that you or other committee members may have.

PREPARED STATEMENT

Senator DECONCINI. Madam Director, let me thank you for your testimony. We have your complete statement and it will be made part of the record.

[The statement follows:]

STATEMENT OF JULIA M. STASCH

Mr. Chairman and Members of the Subcommittee: I am Julia Stasch, recently appointed Deputy Administrator of the General Services Administration (GSA) and, until our permanent Administrator is confirmed, Acting Administrator.

It is my pleasure to appear before you today to testify on behalf of GSA's fiscal year 1994 budget request. I have a very short statement that outlines our request and, I hope, puts it into perspective.

Using obligations as an indicator, GSA's fiscal year 1994 program will total about $11 billion. Most of this will be financed by our customers, either by rental payments for space they occupy, or by reimbursements and payments to revolving funds for a variety of goods and services. Less than two percent of our funding will come from appropriations made directly to GSA. This increment basically supports management and oversight of our programs, and is vitally important to the Agency.

The fiscal year 1994 budget request for discretionary new appropriations is $193.7 million. This is $329.4 million below amounts enacted for fiscal year 1993, basically because no appropriations are being requested in the budget year to help finance capital acquisitions under the Federal Buildings Fund or to meet the expenses of a Presidential transition.

In total, appropriations requested for ongoing operating, management, and oversight functions are slightly below fiscal year 1993 levels, even after accommodating the annualized costs of January, 1993 pay raises and the effects of inflation. We have not assumed any new pay raises in fiscal year 1994, and the budget already anticipates savings from a number of initiatives.

Under the President's plan to reduce Federal employment, for example, GSA total full-time equivalent (FTE) staffing in fiscal year 1994 will be 627 FTE below actual fiscal year 1992 levels. Another Presidential initiative, to reduce administrative expenses by 3 percent per year and 14 percent over 4 years, affects such areas as travel, transportation, utilities, communications, printing, supplies, and purchased services. Also reflected is GSA's share of decreases associated with price redeterminations under the Government's FTS2000 contracts and other efficiencies that have resulted in Governmentwide price reductions of $89 million for long-distance telephone services.

Virtually the only significant program increase in the fiscal year 1994 appropriations request is for an additional $.4 million under the account for Allowances and Office Staff for Former Presidents. This will accommodate the added full-year costs of a pension and other entitlements for the new Former President Bush.

Under the Federal Buildings Fund, GSA is requesting $5.1 billion in fiscal year 1994 new obligational authority (NOA) for the full range of real property activities. As previously noted, we are not requesting appropriations for major capital acquisitions under the fund.

The fiscal year 1994 request for capital programs totals $1.6 billion, including $747 million for a construction and acquisition of facilities program that is largely in support of the Judiciary. This includes projects for construction and expansion of courthouses and site funds for Court projects that will be included in future budgets.

The repairs and alterations program of 18 line item projects and ongoing minor repairs emphasizes basic repairs to protect the Government's real property investment, asbestos abatement, and fire and lifesafety features. $37 million budgeted for energy retrofit and conservation measures is a $7 million increase over prior year, reflecting an investment proposal arising from the President's "Vision for Change in America." The budget includes a $6.7 billion appropriation request to help finance this increment.

At $119.1 million, the Installment Acquisition Payments program reflects a decrease of $26 million from fiscal year 1993, primarily as a result of refinancing a majority of purchase contract projects through the Federal Financing Bank to take advantage of current low market interest rates. The final element of the capital program is $189.3 million for design and construction services that support both current projects and those that will be included in future budgets.

Over $2.1 billion is budgeted for rental of space activities that provide for payments of existing leases, projected new leases, and buildings services furnished by lessors under the terms of lease agreements. The fiscal year 1994 program assumes 900 thousand square feet of new expansion space for Federal agencies. The $1.2 billion requested for real property operations will provide for basic services to tenant agencies at the same service levels as in fiscal year 1993. Rounding out the 1993 request is $157.6 million for program direction activities that provide for planning and policy development, management, and administration of all Public Buildings Service real property programs.

Before leaving the subject of our real property program, I would like to thank the Subcommittee for its support in trying to avoid rent caps that other subcommittees place in appropriations bills. I hope that you can successfully resist them this year, since such artificial restrictions on rent income could jeopardize accomplishing the program that you finally approve for fiscal year 1994.

I would also like to bring the Subcommittee up to date on developments and accomplishments in certain other programs of special interest.

To expand on an earlier comment about savings under our FTS2000 program, the Office of FTS2000 completed the Price Redetermination/Service Reallocation (PR/SR) process for year four of the contracts this past year, and projected savings over the remaining life of the contracts are now about $450 million, compared to fiscal year 1992 prices. In March, 1993, the General Accounting Office (GAO) determined that FTS2000 prices after PR/SR were generally below the best commercial rates at that time.

Since PR/SR, we have negotiated Publicly Available Caps (PAP Caps) with both contractors for all FTS2000 services that will ensure that prices obtained during PR/SR continue to track the market and remain below the best commercial rates. The FTS2000 program has been successful in delivering high quality and cost effective telecommunications services to more that 1.5 million Federal users, with an average customer satisfaction rate of 98 percent.

GSA continues to maintain its place at the forefront of vehicle energy conservation efforts. With the cooperation of the Department of Energy and other agencies, we are aggressively pursuing efforts to introduce alternative fuel vehicles into the Federal fleet, to reduce consumption of petroleum products, and to comply with State emission requirements. For fiscal year 1993, GSA will probably exceed its goal of 3,000 alternative fuel vehicle acquisitions for its own Interagency Fleet Management System, bringing its total to over 6,200 vehicles. We will be acquiring 6,000 to 8,000 more of them in fiscal year 1994 under the President's conservation initiatives.

Another area in which GSA is a leader is in our Child Care Program. We have over 90 child care centers now operating in GSA space, with approximately 30 more centers planned for the future. We recently held the fourth annual GSA Child Care Conference in Portland, Oregon; it was attended by more than 325 Federal child care directors, staff, providers, buildings managers, and parents who participated in 40 training sessions and roundtable discussions. Session topics were timely and practical, and centered on the conference theme "Children Deserve Quality Child Care."

The Agency is proceeding with flexiplace telecommuting centers that were funded in last year's appropriations Act. We anticipate that each center will be administered locally by an intergovernmental cooperative of Federal, State, and local agency partners, or directly by a Federal agency like GSA. The pilot program will be managed by an interagency team led by GSA.

Mr. Chairman, this concludes my overview of the Agency's fiscal year 1994 budget program. I would be pleased to answer any questions you and other members of the subcommittee might have.

BORDER PROJECTS

Senator DECONCINI. Madame Director, I appreciate the fact that you are new on the job. I also appreciate your professional background. I know the discussion of a timeout is certainly most businessworthy and I can understand the need to do that.

In that period of timeout, it concerns me that it may be 6 months before we have a review. We have some pressing needs that I think need to move ahead. An area I am deeply involved in is the construction of border improvements that were approved some 4 or 5 years ago for $360 million. I would like a clarification on how much of that has been spent.

Is that going to be under timeout, too? Are we going to see those projects stopped for a while?

Ms. STASCH. I will let someone else answer about the specific expenditures to date, but I want to assure you that although the timeout projected period of 3 to 6 months is for completion of the entire process, there is no intent to hold everything until every-

thing is reviewed. We will be looking at these things on a priority basis.

Senator DECONCINI. Does that mean, Ms. Stasch, that those already appropriated and in the process are going to get the first looks?

Ms. STASCH. We haven't created the process yet. I will be doing that within the next couple of weeks. But as Mr. Johnson may have mentioned, there are universes of projects about which there seems to be very little controversy. Those would be looked at immediately.

Senator DECONCINI. Do you know the percentage of——

Mr. ARNADE. Mr. Chairman, the program was authorized in 1988. Currently, we are above 50 percent in obligations, but that is a little misleading because the program startup took time.

Right now, all projects are either under design or in the construction phase with the exception of a project that was added in fiscal year 1993 and some funding that was earmarked. With the exception of those two, all projects are either under design or in the construction phase.

And we are much further along than 50 percent. A couple of big projects are still out there.

Senator DECONCINI. What are the big ones still out there?

Mr. ARNADE. You have Calexico and Los Tomates in Brownsville, TX.

Senator DECONCINI. How far along is the one in Brownsville?

Mr. ARNADE. Brownsville, TX, has not received a Presidential permit yet. They are close to receiving it, probably within the next 2 or 3 months.

Senator DECONCINI. And is it designed?

Mr. ARNADE. It is under design now.

Senator DECONCINI. How soon could that start if you get the Presidential permit?

Mr. ARNADE. If the Presidential permit is issued prior to concepts being completed, we hope to complete design by March 1994 and construction would be completed by February 1996.

Senator DECONCINI. I would urge you, Ms. Stasch, that you visit one or two of these port of entries, on the northern border as well, but particularly on the southern border, and get down there before all the new ones are up just to see how bad it is down there. I think it is a disgrace to our country.

Quite frankly, criticism of GSA—at least they never came forward with it. I am not sure that it was that GSA didn't want to do it, but OMB and the past administration never did. It was an initiative here in Congress that developed that, which only underscores the problem of this process. It is not very well operationally. It is not with the authorizing committee. We end up authorizing here because we can't get the authorizing committees to tell us what they want to do. We have requests. GSA does a remarkable job without the real direction from Congress. They come up with their priorities and then we end up doing it in appropriations.

LEASE/PURCHASE OF FEDERAL BUILDINGS

I welcome you dealing particularly with what we are going to do in the future. But to deal with it today, as well as the future, are two different things in my judgment. One of the things I hope you

do in the future in your planning is to decide what you're going to do about lease/purchase Federal buildings. Some of us feel that there is a real necessity to have OMB alter their position on full year scoring for any leased Federal building. I have legislation that specifically is designated toward border constructions. Constructed by a governmental or nonprofit entity, they are only entitled to recapture their costs and no additional profit, but that the scoring would be based on the term of the lease, which you know in business is the way scoring is from the standpoint of capital investment.

You don't score the whole thing and write it off the first year. But in essence that is what OMB has done under the past administrations, and I am afraid that under this administration it may come down to the same thing unless you all wade in very heavily or we pass legislation that would permit, at the discretion of the GSA, to enter into a lease and not have to be scored for the whole project the first year. It is just absurd.

I hope your business acumen will agree with that—I suspect it will—and that you push for a change down there. It really is necessary.

Ms. STASCH. This is one of the things that I have had an early briefing on and we anticipate that as soon as Mr. Johnson is confirmed that this is an issue he will want to grapple with immediately.

Senator DECONCINI. I would like you to look at the legislation and if you wanted to expand it greater than the border, fine. I am concerned down at the border because we have NAFTA around the corner. I think it will be approved. Even if it isn't, the trade with Mexico has doubled in the last 4 years. Because of their entrance into GATT, the transportation and traffic across the border is even overtaking some of the improvements that the Congress already authorized.

Ms. STASCH. I have already done a little bit of homework and I know that it is my personal opinion—and I anticipate that Mr. Johnson would share it—that we would try to work toward having available the full range of tools to make the most expeditious and cost-effective real estate solutions.

Senator DECONCINI. If the Senator from Oregon would like to move on to other things, I would be glad to yield to him for his questions.

Senator HATFIELD. Thank you, Mr. Chairman, for being so gracious.

PORTLAND, OR, COURTHOUSE

Ms. Stasch, I understand your status is relatively new on the block, so to speak. I want to thank you and also wish you well and say that I want to be helpful in any way I can be.

I want to pose three points quickly that are related to policy. I want to associate myself with the chairman on the matter of lease arrangements and their scoring in order to facilitate your task.

The GSA, of course, has been moving to look at long-term needs rather than just trying to catchup and only build for that immediate need. Working with the administrative division of the court

system, the new Federal courthouse in Portland is an example of what the GSA is attempting to achieve.

Your budget request is for $96 million to start this project. The architects have been established and drawn their plans. This summer they hope to begin construction. But in the meantime, that $96 million is less than that what had originally been proposed and I think by a 4-percent reduction. The House of Representatives have now reduced that figure by 12 percent more or is proposing to do so.

So my basic question is, What would be the impact of that further reduction? My understanding is that we have expended now $7 million to draw the design, to do the feasibility, the engineering, all the preliminaries. If that further reduction made by the House is to occur, I am told by the architects that you are going to have to redesign much of the structure, which is going to be an additional cost.

My question is concerning that additional cost that is going to be required to redesign. There must be somewhere that those lines narrow as to whether we're really going to be in the long-term a lesser cost building.

You can provide that response for the record and I am very hopeful that the chairman will understand this particular problem and will raise that closer to your request level.

HOLDING FACILITY FOR FEDERAL PRISONERS

No. 2, in this long-term planning for Federal housing—in Portland, Mr. Chairman, we do not have a holding facility jail for Federal prisoners as they are being tried in the Federal courts. The city and county have a facility downtown in which they charge us rentals per day. I think we are paying $100 per day per bed. We could get a suite at the Hilton Hotel for less than that. [Laughter.]

But nevertheless, that is a particular Federal need. Our U.S. attorneys are scattered in the city. Our DEA people are scattered. Our U.S. marshalls are scattered. Our FBI are scattered. All of those linkages and auxiliary relationships to the court system are scattered.

I would like to have GSA look at—across the street from where the new courthouse is being built there is some vacant property—about the possibility in the long-term as to how you might plan to create a structure there that would have a jail on top that we could then transfer the prisoners underground or build a corridor across the street to the courts and not have the security problems and bring all the law enforcement people together in one facility rather than being scattered across town.

I would estimate, knowing some of the rentals, we are probably paying higher at all these scattered rentals with small units here and there. If you would please look at that possibility in the long-term, I would appreciate it.

CONSOLIDATION OF OFFICES

My third point is, as the chairman fully understands, the BLM and the Forest Service have similar missions. In our State, we are merging those offices to bring better correlation on timber manage-

ment. The BLM owns the highest amount of timberland of any BLM ownership in the country. The Forest Service has large timberland. They use a different scaling method. They do all sorts of things that are really contradictory almost.

I have talked to Mr. Bacca, who is the new BLM director, as well as to the two regional offices of BLM and Forest Service. They would like to be together.

We are now in the process—BLM is being evicted from their current rental and they are going to need about 90,000 square feet. Agriculture is going to need about 30,000. Customs is going to need about 30,000. Now rather than going out into three different kinds of structures or rentals, I know that you have a regulation where you can save money by bringing them together into one facility. I would like to urge you to think about a facility that would bring the Forest Service and the BLM together in one structure, sharing technical and sharing professional people, and who they believe themselves could save a great deal of money.

Rather than going out into three separate bids for three separate rentals, those are my thoughts.

DETENTION FACILITY AND CONSOLIDATIONS

Mr. BIBB. Let me talk about the detention facility.

As you probably know, the Bureau of Prisons under the Department of Justice is responsible for construction of jail-type facilities.

Senator HATFIELD. Yes.

Mr. BIBB. But we have been able to work with them in a number of cities to do exactly what you're talking about: linking them up. So from a planning standpoint, there is no reason we can't have those kinds of conversations. We would be happy to do that.

As far as BLM, Agriculture, and Customs, I am not familiar with those requirements at all. But again, anytime we go to the market to try to satisfy space needs, we want to do what makes the most sense economically from the standpoint of public service, client service, and interaction among the agencies.

I will need to get in touch with our regional office on that and we can certainly get back to you with the situation and the potential for consolidation.

PORTLAND, OR, COURTHOUSE

Senator HATFIELD. And the impact on the 12 percent further reduction of the $96 million you had asked for in the courthouse, if we went with the House level?

Mr. BIBB. Of course, the House action is fairly recent, so we are in the process of trying to determine what the reduction does to us on an individual project basis. I know you have seen the design concept for the Portland building. We have been working with the courts relatively aggressively in trying to hold the cost of that project within the previous target.

So my initial feeling is that we would be into some significant scope changes and redesign, as I think you would suspect. But the impact of how much it would cost versus what has already been spent, we have not calculated. But I understand the point you are making and that is something we will be looking at.

Senator HATFIELD. And Mr. Bibb, it would help us, as you know, in justifying, say, a higher level than the House provided, especially if we can show that the costs of redesign would reduce any savings the House cut has made.

Mr. BIBB. I think we can certainly come up with that number. If a redesign were to happen, what kind of dollar figure we would be talking about?

Senator HATFIELD. Right.

ALLOCATION OF REDUCTIONS

Ms. STASCH. I would like to add one philosophical comment on top of that.

It seems to me that to the extent that the desire here is an aggregate reduction in cost, perhaps it might be useful in the future for GSA to have the discretion within the total dollars identified with respect to a list of projects to allocate the reduction on the basis of least impact. There may be some projects that are less complete in design where the cost impact would not be as dramatic.

If we had that discretion, we could apply the true professional perspective within the overall cost reduction parameters to the projects in the most rational way.

Senator HATFIELD. Thank you.

Mr. Chairman, thank you. I appreciate it.

Senator DECONCINI. You're welcome. Absolutely.

I would hope that before you do what you have suggested you would talk to us because I think it poses some problems on some projects, quite frankly. If we leave that discretion to you and we have a courthouse and the judges are satisfied, that is one of the things that we have to deal with as Members of the legislative body. I am not about to put the judges in a courthouse in downtown Phoenix that they are not willing to go into or don't like in some manner because the GSA can't quite negotiate out what the cost savings are.

I would like to see GSA review their costs from the standpoint of whether they really get the best investment for the construction. Federal buildings are magnificent buildings. I am always from the standpoint of an observer and a consumer not always sure that they have to be quite as fallacious as they appear to be. Maybe they aren't underneath the marbled floors, high ceilings, and what have you.

But that is what I think needs to be looked at. So once an allocation is made, I would have some problems just letting the GSA on a priority basis reduce a certain courthouse by 100,000 square feet because the priorities are someplace else.

Ms. STASCH. I don't think that is what I meant. I think I meant that within the specifications we could see if we could allocate the dollars in a way that would achieve the greatest degree of mission and purpose for each building, allocating the cost in a more rational construction and design mode as opposed to just 10 percent, 2 percent, or whatever the reduction is.

Senator DECONCINI. I see.

Ms. STASCH. I think first of all I anticipate that this would be an iterative process. I think that we would obviously work with your committee and others.

Senator DECONCINI. When a Member here is able to get this committee to appropriate some money, we feel committed. We don't think we're making a mistake on the Portland courthouse. We want to see it done. Now when we have a House that reduces it, we have to deal with that and if we have to spend more money to get it done, that is a shame, but we feel pretty committed to that. We want to be sure that that is done, even if GSA may say that they would rather do one in Minneapolis this year.

Ms. STASCH. I don't think that's what we're talking about. We are talking about achieving your mission in the most cost-effective manner.

Senator DECONCINI. OK.

Senator HATFIELD. Mr. Chairman, if I may comment, I have found in dealing with judges that they have to have high ceilings to think. [Laughter.]

FISCAL YEAR 1993 PROJECTS

Senator DECONCINI. Ms. Stasch, in fiscal year 1993—I want to talk about some programs that we have appropriated money for—Congress gave the GSA obligational authority to proceed on several buildings. One was the FBI field office, which was $53.8 million; the Army Corps of Engineers, which was $50 million; and the U.S. Secret Service headquarters, which was $150 million. I realize that you may not have all these in your mind or in your notes there.

On the floor of the Senate there was a lot of discussion because the authorizing committee had not approved of all of these. We left it that we were going to go ahead and authorize them and appropriate the money, which we did, but that the authorizing committee members that had stated some objections would review these projects within 90 days of enactment. It so happened that to my knowledge there has been no review by them, and it is well over 90 days, about 6 months.

I know that the soon-to-be Director told me yesterday that he has talked with the authorizing committees. Have you talked with them? Do you have any idea if they are going to review this authorization soon? If not, are you planning to proceed with your priority review so that we might get on with these buildings?

Mr. BIBB. Mr. Chairman, there have been many discussions with the staff of the authorizing committee and a good bit of information furnished to the staff and then to the members of the committee.

They have not scheduled a hearing yet. My understanding is that they are not completely satisfied on the cost of the projects, scope, and those sorts of issues.

We have not totally stopped the projects. For example, we are in the site investigation phase for Secret Service. We are taking it up to the point of actually buying the site. We have done the same with the FBI site. We have selected the site, but we haven't bought it. For the Corps of Engineers we are moving very close to being in a position to make an award for a developer/manager contract.

So we have continued on the road to being able to execute the projects up to the point of having a decision from the Environment and Public Works Committee. I would suspect that these three projects would be subject to the review that Ms. Stasch has talked about.

Senator DECONCINI. They are not subject to authorization or review by the authorizing committee.

Mr. BIBB. That is correct.

Senator DECONCINI. I realize that we would like to have their input.

Mr. BIBB. We have been attempting to comply with what we thought was the spirit of the floor debate that you had.

Senator DECONCINI. I presume those projects are going to get top priority here so that we—unless you find them to be absolutely worthless and need to be redone—that we don't hold that up. We have been working on the Secret Service and the FBI for 2 years or more, Secret Service 4 years I think. And it is very important that we proceed with something.

Ms. STASCH. I am aware of the need to be timely and to be even more timely as a service provider and project deliverer, GSA's mission. And as I said, as soon as Mr. Johnson is confirmed, we plan to have a recommendation for what the procedures will be.

SECRET SERVICE PROJECTS

Senator DECONCINI. Where is the Secret Service right now in the process?

Mr. BIBB. We have done a site investigation, which means looking at all the available locations in their delineated area in downtown Washington. The group of persons who have been conducting that investigation are about ready to make a decision on a recommended site to be acquired.

I am not certain where we are in the selection of an architect and engineer. I would have to get back to you in the next day or so on where that stands.

Senator DECONCINI. What are GSA's plans if the Secret Service can't move out by 1995?

Mr. BIBB. Typically, when we can't move out, we attempt to negotiate a short-term extension of the lease. They are currently located in a couple of lease locations, so that would be our first option.

Senator DECONCINI. And you have selected a site, you said?

Mr. BIBB. We are to the point of being ready to select a site.

Senator DECONCINI. Are you going to do it or are you going to review it or what?

Mr. BIBB. It will be reviewed. We haven't set all the procedures in place, but that would be my expectation.

NOGALES, AZ, PROJECT

Senator DECONCINI. Also in last year's appropriation we appropriated $3 million for the construction of new border patrol headquarters located in Nogales, AZ. Can you tell us how far along that is?

Mr. ARNADE. It is my understanding that usually the Border Patrol constructs their own facilities. I believe the agency is going to make a decision as to whether or not we are transferring that money to them to construct it or whether we are going to construct it ourselves. I am sorry, but I do not know exactly which side we have come down on yet.

Senator DECONCINI. When will that decision be made?

Mr. ARNADE. We will get back to you immediately with where we stand on that.

Senator DECONCINI. Speaking of courthouses, and being as parochial as you can be, the city of Phoenix has for a number of years now offered free land for a courthouse. GSA is determined, I believe, that it is justified to build a courthouse there. But we had a little problem about the judges wanting to be at a different place and desiring to have us direct GSA to do some condemnation, which we have not done.

To the credit of the judges, particularly Chief Judge Broomfield, they have now agreed to take one of these several sites—and I think it is further along than that—that is offered by the city. I have purposely refused to appropriate the funds over the past couple of years until we had a free site so that it wasn't going to cost us any money. I would ask that that be reviewed as a priority because if I am correct that the GSA and the city have about culminated on the site there, I would like to see us get started because we are a couple of years behind.

This was no fault of GSA whatsoever. They have been extremely professional and cooperative and have tried their hardest to put together something there when it really isn't their total responsibility. I think it is going to come together, so I would appreciate it if you would put this on your list.

Mr. FISCHER. Mr. Chairman, I had the opportunity a couple of weeks ago to walk that area with our people out in Phoenix for a small minority business development conference and they were very optimistic that we had everything lined up to move ahead with that. It certainly seemed to be a very appropriate and good location.

Senator DECONCINI. It looks like it is coming together. I would certainly like to see that before our markup you might have a chance to look at that.

The statement of the manager's language accompanying the fiscal year 1993 appropriation act instructed GSA to not alter the authority or composition of interagency advisory committee on security equipment and otherwise to undermine existing directives for current GSA Federal Governmentwide standards for physical security on or before March 31, 1993.

CONTAINER STANDARDS

I am advised that the information security oversight office proposed a directive dated February 24 which had the effects of dropping several key physical security standards for containers protecting classified information. This was in direct contravention of the statement of managers, which I guess technically is not law, so you don't have to do it.

Can somebody explain why GSA ignored the committee?

Mr. DANIERO. The locks themselves, the safes, and the security containers, we are currently furnishing to the agencies do require the Federal spec and the GSA-approved locks on them. At DOD's request, we are developing a new container for the protection and storage of weapons. This container does not require a GSA-approved lock in accordance with Federal Specification FF–L–2740.

I am sure you know the background. A high-technology lock has been developed. We have one supplier of that lock presently. It is far superior to anything we have had in the past, which was the old mechanical locks. It also provides usually an added benefit of being able to take—when the security container has been compromised.

So we have a requirement for all the security cabinets that we have available now for secret, confidential, and top secret to have a GSA-approved lock. Field safes used for the storage of classified information in field operations do not require a lock meeting FF–L–2740. The draft revision to the standard classified material that was put out by the information security office was to try to ascertain from agencies—because this lock was a more expensive lock, we needed to know if there was any need to consider that certain requirements might need a lesser lock.

That was supposed to take place over a 9- to 12-month period in terms of reviewing that requirement and seeing whether the additional cost for the high-technology lock was required in every instance for confidential, secret, and top secret.

As far as we are concerned, the Federal Supply Service, being the agent who procures the cabinets, nothing has changed because the current regulation is still in effect.

Senator DECONCINI. The directive dated February 24, 1993—did it drop several key physical security standards for containers or not? Or was it just informational?

Mr. DANIERO. That was a draft revision of the standard, which again, was not a GSA, per se, function. The Information Security Oversight Office [ISOO] operates under the National Security Council. They issue the standard.

Senator DECONCINI. The Security Council made the change, dropping several physical security standards?

Mr. DANIERO. This is a draft standard which they put out suggesting that——

Senator DECONCINI. So the answer is that they did drop them, but GSA didn't?

Mr. DANIERO. GSA didn't drop them, and it has not been officially dropped. It is a draft.

Senator DECONCINI. What is the relationship between ISOO and GSA and the Federal Supply Service?

Mr. EARLY. ISOO gets its guidance, leadership, and responsibility from the National Security Council. It is primarily focused on security requirements, classification standards, and the review of that worldwide. They are housed within GSA and funded through the GSA, IRMS appropriation.

Senator DECONCINI. But they are not responsible to the director?

Mr. EARLY. They get very little guidance. We are the funding vehicle for them, but in a day-to-day working relationship with the National Security Council.

Senator DECONCINI. And what they say, you don't have a say over?

Mr. EARLY. We do not have veto over that.

Senator DECONCINI. You cannot direct them to do something?

Mr. EARLY. That is correct.

Senator DECONCINI. So in essence, in this kind of situation, they direct you? Is that fair to say?

Mr. EARLY. They set the standards.

Senator DECONCINI. So if they drop parts of the standard, then you are obligated to proceed along that basis?

Mr. EARLY. That is correct.

Senator DECONCINI. Thank you for the clarification.

I am going to submit the balance of my questions for the record.

Thank you very much, Ms. Stasch. You have done a great job your first day or two here.

Ms. STASCH. Thank you very much.

SUBMITTED QUESTIONS

Senator DECONCINI. I am going to submit the balance of my questions for the record.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR DeCONCINI

SANTA ANA AND SACRAMENTO, CALIFORNIA, FEDERAL BUILDING-COURTHOUSES

Question. For fiscal year 1994 GSA is requesting $739.2 million in new obligational authority for the construction of 16 Federal buildings and courthouses. This amount is $107 million above the fiscal year 1993 enacted level. Of the amount requested for '94, $566 million or 75 percent is earmarked for various Federal court projects. Of the 75 percent, $330 million or 58 percent is for 2 new courthouses in California, the Santa Ana Courthouse with a request of $168 million and the Sacramento Courthouse with a request of $162 million.

I have heard from both of these communities and understand the importance of the 2 California court projects. However, with the limited allocation available to the Subcommittee in fiscal year 1994, I am wondering if you can tell us when you actually plan to award construction contracts on these projects?

Answer. For the Santa Ana Federal Building-Courthouse, the excavation award is scheduled for award in June 1994 with the construction of core and shell scheduled for award in December 1994.

For the Sacramento new construction project, the excavation award, core and shell construction award, and tenant improvements award are scheduled for April 1994, May 1995, and September 1996, respectively.

Question. Can these projects be done in phases? If not, why not?

Answer. With such a tight construction schedule planned for the Santa Ana Federal Building-Courthouse, there is no time for phasing this construction project. If GSA is committing to the excavation in June 1994, GSA must also be in a position to commit to the rest of the construction project in December 1994. In the case of the Santa Ana new construction project, GSA cannot risk the possibility of a delay in the appropriations process. A delay in the project schedule is also not recommended for the following reasons:

- GSA needs to relocate the courts in fiscal year 1997 because the land lease for the site of the Modular Courts Building expires in fiscal year 1997. This coincides with the project occupancy year of the new Federal Building-Courthouse.

- By fiscal year 1997, the courts in Santa Ana will be operating with a space deficit of approximately 185,000 square feet.

In light of the schedule for the Sacramento new construction project, it would be possible to fund this project in two separate phases with excavation in FY 1994, and core and shell and tenant improvements in FY 1995. The budget for the tenant improvements phase will be developed by the Architect/Engineer during the upcoming concepts design stage which is scheduled for November 1993. Until this separate budget is developed, funding for tenant improvements should be integrated with the core and shell work.

PORTLAND, OR, U.S. COURTHOUSE

Question. What about the Portland, Oregon Courthouse, will the construction contract actually be awarded for this project in fiscal year 1994--I notice that $96.4 million has been requested?

Answer. Yes, if funds are made available by the Congress at the level of the budget request, the construction contract for the new courthouse could be awarded in June 1994. However, on May 13, 1993, the House Public Works Committee authorized only $86,751,000 for fiscal year 1994 funding of this project. H.R. 2403, the Treasury, Postal Service, General Government Appropriations Act, as passed by the House of Representatives on June 22, 1993, would further reduce the amount funded in fiscal year 1994 to $85,015,980. Such a substantial reduction in available funds would require the building to be redesigned at an estimated cost of $4.49 million. At a minimum, reduced funding would result in the elimination of two floors from the current courthouse design and limit the structural capacity of the building to meet the long-term requirements of the courts.

FOOD AND DRUG ADMINISTRATION CONSOLIDATION EFFORTS

Question. I am delighted to see that GSA has finally included funds for continuation of the Food and Drug Administration consolidation efforts.

Can you tell us how the proposed $73,921 million will be spent in fiscal year 1994 and identify what actions have been taken with respect to the $200 million already appropriated for this project?

Answer. The $73.9 million along with the $200 million previously appropriated in fiscal year 1992 will be used for planning, site acquisition, design, and construction of the facilities.

Question. What is your current plan to complete this facility and what are the funding requirements?

Answer. The existing plan for the consolidation of FDA, as approved by the previous administration, envisioned a total cost of approximately $425 million.

With the appropriation of the initial $200 million, the previous administration made a commitment to the Congress that the remaining funds required for the project would be requested in fiscal years 1994 and 1995. However, Senator Barbara Mikulski and Secretary of Health and Human Services, Donna Shalala, have indicated that the scope of the project should be expanded. A new plan has been developed by HHS, and is awaiting approval from OMB. If this plan is approved the remaining funding would be requested over the next 3 to 5 years to coincide with the phased development of the project.

GSA's expenditures of the $273.9 million will be consistent with the funding plan ultimately adopted by the current administration.

U.S. SECRET SERVICE HEADQUARTERS, ARMY CORPS OF ENGINEERS HEADQUARTERS AND FBI FIELD OFFICE

Question. Madame Administrator, in fiscal year 1993, the Congress gave GSA obligational authority to proceed on the construction of the FBI Field Office ($53.8 million); the Army Corps of Engineers Headquarters ($50 million); and the U.S. Secret Service Headquarters ($150.569 million). There was considerable discussion on the floor prior to the approval of the conference report over concerns that these projects had not been considered and approved by the authorizing committee. As we left it, authorizing committee members stated that they would review these projects within 90 days of enactment. Are the FBI Field Office and the Secret Service projects ready to go?

Answer. GSA understands that the authorizing committee is not completely satisfied with such issues as the cost and scope of the projects. However, GSA has continued to develop these projects up to the point of requiring a decision from the Senate Committee on Environment and Public Works. For example, GSA has completed a site investigation for the Secret Service and will soon be ready to recommend a site to acquire. The same situation exists for the FBI; GSA has selected the site but has not made the purchase.

Question. In fiscal year 1994 you are requesting an additional $50 million in support of the Corps of Engineers headquarters to be located at Southeast Federal Center. If the funds are provided by the Committee, when do you expect to award a construction contract and obligate the funds for construction?

Answer. If GSA receives funding for this project in the fiscal year 1994 budget, the construction contract could be awarded as early as in the first quarter of fiscal year 1995.

PHOENIX, ARIZONA, FEDERAL BUILDING-COURTHOUSE

Question. I have been working very closely with the City of Phoenix, the courts, and GSA in plans for the site location of a new Federal courthouse in Phoenix, Arizona. It is my understanding that GSA has agreed to a site composing 2 square blocks to be donated at no cost to the Federal government from the City of Phoenix. Can you give us an updated status report on this project and list for me what steps need to occur prior to this project going to construction?

Answer. Through a site investigation conducted in FY 1992, GSA was offered a number of sites including one by the City of Phoenix for $1.3 million. However, in working with the district courts and GSA's contract consultants, GSA later determined that a site size of at least two city blocks would be required to satisfy the long-term requirements of the courts.

On May 28, 1993, GSA received a new offer from the City of Phoenix which provided for the donation of two city blocks, including the one offered last year for $1.3 million, plus the block immediately to the West. The City also offered to vacate the intervening street when it is needed for further development of the site and to develop a block to the immediate West as a multi-level underground parking garage with a park on top.

On June 4, 1993, GSA provided a draft Memorandum of Agreement to the city. The City responded on June 15th with a substantially revised version which incorporates a number of conditions:

- One block to be conveyed immediately; second block under an option for conveyance at a later date;

- Design approval by the City;

- Design and construction subject to review and approval of city redevelopment, planning and building agencies, and the Mall Commission;

- Federal government responsible for all site clearance (i.e., demolition, relocation, expenses, etc.);

- Federal government responsible for all environmental assessment, and for clean-up on a shared basis whereby the City would be willing to pay up to $250,000, provided GSA pay the first $250,000 and shared costs over $500,000;

- A firm date requirement on commencement and completion of construction;

- A reversion of the property to the City if GSA fails to comply with any condition.

Given the scope and implication of the condition clauses, negotiations are still continuing with the City to reach a sound agreement. GSA anticipates that an agreement with the City will be reached within the next 30 to 60 days.

The following steps need to be reached prior to construction:

- An agreement reached between GSA and the City concerning the site;

- Completion of appropriate environmental site testing;

-Conveyance of the site to GSA;

- Authorization from Congress of the design and construction of a Phoenix new FB-CT project;

- Appropriaiton of funds for the project.

Question. What is the total estimated cost for a building to meet the 30-year requirements of the Federal courts in Phoenix?

Answer. GSA's policy is to build projects to the courts' 10-year need, but to acquire a site large enough to accommodate an expanded facility when future expansion beyond 10-years is required. Also, the District of Arizona does not have a requirement to collocate the bankruptcy courts with the remainder of the court family. Therefore, GSA recommends that the bankruptcy courts be housed in the existing Phoenix Federal Building-Courthouse.

ENERGY RETROFIT PROJECTS

Question. The President has included $30 million in your Repairs and Alterations budget for fiscal year 1994 for energy retrofit and energy conservation measures in various Federal buildings and courthouses throughout the country as part of his investment package. What specific buildings have you identified to undertake energy conservation projects?

Answer. Please see the attached project list.

[The information follows:]

REGION	FIELD OFFICE	SIR	PAYBACK	MBTU SAVINGS	REBATE	ANNUAL $ SAVINGS	BUILDING #	PROJECT NAME	PROJECT CODE	PROJECT COST
11	LAFAYETTE	1.90	4.00	980	Y		DC0091ZZ	MOTION SENSORS	L	$155,000
	SUITLAND	2.30	2.90	10,261	N		XD005EA6	ARC-ENERGY MGMT SYSTEM	E	$18,800
	NORTHWEST	2.80	2.40	10	N		DC00008E	POI ANNX ARC-LIGHTING RETROFIT (BASE)	L	$600
	NORTHWEST	1.60	4.00	235	N		DC00035E	POI ANNX 12 LIGHTING RETROFIT	L	$20,500
	NORTHWEST	25.00	0.30	242	N		DC0533AC	SOUTH BLDG-REPLACE STEAM TRAP (BASE)	H	$4,000
	NORTHWEST	2.30	3.20	1,101	N		DC0533AC	SOUTH BLDG-LIGHTING RETROFIT	L	$98,000
	ARLANGRIA	8.60	0.80	850	N		VA0506AN	HVAC RETROFIT	H	$11,000
	L'ENFANT	1.90	4.00	3,930	Y		DC0031ZZ	MOTION SENSORS	L	$424,000
	NORTHEAST	1.90	4.00	2,000	Y		DC0014ZZ	MOTION SENSORS	L	$317,000
	SUITLAND	1.90	4.00	2,120	Y		XD005EA6	MOTION SENSORS	L	$337,000
	SUITLAND	1.90	4.00	1,530	Y		XD003EA6	MOTION SENSORS	L	$243,000
	NORTHWEST	2.80	2.10	111	N		DC0532AC	EAST BLDG-LIGHTING RETROFIT	L	$12,600
	DELEGATED	7.50	2.30	4,688	N		XD0531AJ	PROVIDE SUMMER BOILER	H	$104,000
	SUITLAND	4.00	1.20	4,634	N		XD010EA6	MING PLNT-CONTROL RETROFIT	H	$200,000
	NORTHWEST	14.60	1.50	1,285	N		DC1257ZZ	LIGHTING RETROFIT	L	$40,720
	SOUTHWEST	6.10	1.10	855	N		DC0177ZZ	LIGHTING RETROFIT	L	$30,600
	SOUTHWEST	9.60	0.70	5,957	N		DC0177ZZ	HVAC RETROFIT	H	$89,000
	NORTHEAST	16.30	0.10	9,725	N		DC0114ZZ	LIGHTING RETROFIT	L	$30,000
	WHITE HOUSE	1.90	4.00	1,950	Y		DC0105ZZ	MOTION SENSORS	L	$310,000
	L'ENFANT	60.00	0.10	4,117	N		DC0031ZZ	PIPE INSULATION	I	$11,000
	FAIRFAX	4.10	1.70	2,378	N		VA1411ZZ	LIGHTING RETROFIT	L	$65,000
	METRO NORTH	10.50	0.70	3,832	N		MD137ZZZ	CONTROL PANEL	H	$43,200
	DELEGATED	2.60	5.20	2,105	N		DC0115ZZ	AIR TO AIR HEAT RECOVERY	H	$138,000
	L'ENFANT	4.10	1.60	8,532	N		DC0031ZZ	ENERGY MANAGEMENT SYSTEM	E	$300,000
	FAIRFAX	69.60	0.10	9,173	N		VA1411ZZ	HVAC RETROFIT	H	$22,000
	ARLANGRIA	17.50	0.50	10,768	N		VA0506AN	BUILDING RETROFIT	L	$25,000
Total:										$3,249,920
2	SYRACUSE	6.10	1.10	3,733	N	$0	NE0016ZZ	ECO 8 - INSTALL NEW MAGNETIC INTERIOR STORM WINDOWS	W	$18,970
	ANDOVER	1.33	9.00				MA013ZZZ	CHILLER		$234,108
	ROCHESTER	2.00	3.30	5,950	Y	$0	NY036ZZZ	ECO 5 - INSTALL NEW FLUORESCENT REFLECTOR	R	$111,296
	SAN JUAN	2.50	3.60	1,155	N	$0	PR001ZZZ	ECO 9 - REPLACE ESISTING CHILLERS	M	$1,100,000

REGION	FIELD OFFICE	SIR	PAYBACK	MBTU SAVINGS	REBATE	ANNUAL $ SAVINGS	BUILDING #	PROJECT NAME	PROJECT CODE	PROJECT COST
	MANCHESTER	5.00	1.35	652	Y	10	MA012922	ECO 7 - LIGHTING RETROFIT	L	$53,645
	FEDERAL PLAZA	1.33	9.00				NY026222	STEAM TRAPS		$145,000
	ALBANY	2.00	3.50	2,203	N	10	NY000222	ECO 2 - INSTALL NEW ENERGY MANAGEMENT SYSTEM	E	$203,456
	BROOKLYN	1.33	9.00		N		225 CADMAN PLAZA	STEAM TRAPS		$25,000
	SYRACUSE	1.70	3.90	595	Y	10	NY001622	ECO 4 - INSTALL NEW FLUORESCENT REFLECTOR	R	$76,457
	SYRACUSE	6.20	1.10	1,825	Y	10	NY029122	ECO 3 - INSTALL NEW FLUORESCENT REFLECTOR	R	$124,017
	FEDERAL PLAZA	2.50	2.60	18,173	Y		NY028222	ECO 1 - INSTALL NEW FLUORESCENT REFLECTOR	R	$609,000
	FEDERAL PLAZA	6.50	1.00	6,700	Y		NY029222	ECO 1 - INSTALL NEW FLUORESCENT REFLECTOR	L	$852,518
	AGUSTA	2.10	2.20	1,038	N	10	ME001822	ECO - 6 INSTALL NEW ENERGY MANAGEMENT SYSTEM	E	$77,803
Totals										$3,931,270
3	EAST PHILADELPHIA	7.10	3.50		N	10	PA011422	RETROFIT FLUORESCENT LIGHTS	R	$350,225
	RIDDLE RIVER	1.33	9.00				R000604K	LIGHTING PROJECT	L	$367,135
	PITTSBURGH	5.70	1.20		N	10	PA023322	CHILLER SPEED CONTROL DRIVE	H	$100,000
	EAST PHILADELPHIA	22.30	1.10		N	10	PA027766	REPLACE INCANDESCENT LAMPS	L	$89,100
	PITTSBURGH	2.50	4.10		N	10	PA020422	RETROFIT FLUORESCENT LIGHTS	R	$20,000
	PITTSBURGH	2.90	5.10		N	10	PA026122	RETROFIT FLUORESCENT LIGHTS	R	$20,000
	CHESAPEAKE	6.30	3.90		N		MD144022	RETROFIT FLUORESCENT LIGHTS	R	$175,000
	CHESAPEAKE	4.80	5.10		N	10	GE001422	RETROFIT FLUORESCENT LIGHTS	R	$250,000
	RIDDLE RIVER	9.63	1.75	657	N	$14,323	R00555AK	LIGHTING PROJECT	L	$25,000
	RIDDLE RIVER	6.42	2.30	500	N	$25,000	R00553AK	LIGHTING PROJECT	L	$25,000
	PITTSBURGH	3.50	4.20		N	10	PA023322	HEAT RECOVERY SYSTEM	H	$100,000
	RICHMOND	1.70	3.90		N	10	VA006322	RETROFIT COURTROOM LIGHTS	L	$20,000
	RICHMOND	8.10	1.20		N	10	VA160822	INSTALL GAS WATER HEATER	H	$10,000
	RICHMOND	1.80	4.70		N	10	VA000822	RETROFIT BOILERS/DUAL FUEL	H	$51,000
	RICHMOND	2.40	5.70		N	10	VA004222	REPLACE WINDOWS	W	$700,000

REGION	FIELD OFFICE	SIR	PAYBACK	MBTU SAVINGS	REBATE	ANNUAL $ SAVINGS	BUILDING #	PROJECT NAME	PROJECT CODE	PROJECT COST
	RICHMOND	3.70	2.40		N	$0	VA006322	INSULATE STEAM LINES	M	$10,000
	HUNTINGTON	2.50	3.70		N	$0	VA009522	INSTALL HPS LAMPS/GARAGE	L	$10,000
	RICHMOND	6.30	1.50		N	$0	VA008822	INSTALL DUAL FUEL WATER HEATER	H	$20,000
	RICHMOND	4.90	5.00		N	$0	VA008822	RETROFIT FLUORESCENT LIGHTS	R	$50,000
	RICHMOND	2.30	6.20		N	$0	VA160822	ENERGY MANAGEMENT SYSTEM	E	$25,000
	WILKES-BARRE	5.20	4.80		N	$0	PA021622	RETROFIT FLUORESCENT LIGHTS	R	$34,000
	BIDDLE RIVER	8.61	1.95	325	N	$7,083	X005598X	LIGHTING PROJECT	L	$13,800
	PITTSBURGH	1.80	6.40		N	$0	PA026122	REPLACE A/C UNIT	H	$25,000
	PITTSBURGH	2.60	4.90		N	$0	PA027522	REPLACE A/C UNIT	H	$25,000
	WEST PHILADELPHIA	2.90	8.40		N	$0	PA06018I	RETROFIT FLUORESCENT LIGHTS	R	$684,500
	BIDDLE RIVER	23.32	0.68	1,079	N	$23,193	X005598X	LIGHTING PROJECT	L	$14,000
	WEST PHILADELPHIA	9.00	2.80		N	$0	PA015322	RETROFIT FLUORESCENT LIGHTS	R	$328,300
	WILKES-BARRE	11.50	2.10		N	$0	PA018222	RETROFIT FLUORESCENT LIGHTS	R	$41,000
Totals										$3,306,280
6	ATLANTA WEST	3.10	4.10		N	$2,350	GA0502AA	OFFICE LAMP RETROFIT	L	$9,800
	ATLANTA WEST	2.00	4.90		N	$5,200	GA0502AA	REPLACE CEILING FANS	B	$25,500
	ATLANTA WEST	12.70	0.10		N	$6,500	GA0502AA	PUT IN NIGHT SETBACK T'STATS	H	$2,400
	ATLANTA WEST	2.90	4.10		N	$135	GA012522	MH LAMPS ON DOCKS	L	$200
	ATLANTA EAST	2.10	4.90		N	$206	GA013822	REPLACE 25 INCAND FIXTURES W/FLUORS	L	$1,000
	ATLANTA EAST	1.30	2.40		N	$2,200	GA000522	INSTALL EMCS TIED TO GA013822	E	$20,000
	ATLANTA EAST	1.20	6.90		N	$3,600	GA000522	ADD OA ECONOMIZER OPERATION	H	$25,000
	ATLANTA EAST	1.80	5.30		N	$300	GA013822	REPLACE 2 100 GAL ELEC HWH	H	$1,200
	ATLANTA WEST	3.10	4.10		N	$5,900	GA011822	INSTALL FLUORESCENT REFLECTORS	R	$24,000
	COLUMBIA	2.20	4.50		N	$1,100	SC00286C	HVAC AMBIENT PROCESSOR CONTROL	H	$5,000
	ATLANTA EAST	2.50	4.60		N	$9,250	GA013822	ADD OA ECONOMIZER OPERATION	H	$45,000
	COLUMBIA	1.40	6.30		N	$7,104	SC004422	HVAC AMBIENT PROCESSOR CONTROL	H	$5,000
	ATLANTA EAST	2.10	4.10		N	$10,920	GA013822	INSTALL ENERGY MANAGEMENT SYSTEM	E	$45,000
	ATLANTA WEST	4.30	2.30		N	$13,900	GA012122	GLYCOL LOOP FOR COMPUTER A/C	H	$100,000
	ATLANTA EAST	3.90	3.00		N	$1,350	GA000522	REPLACE 200 INCAND FIXTURES W/FLUOR	L	$4,000
	ATLANTA WEST	2.90	4.40		N	$180	GA011822	METAL HALIDE LAMPS ON DOCK	L	$800
	ATLANTA WEST	2.20	3.20		N	$4,750	GA012122	REPLACE 150W MG LAMPS W/75W	L	$25,000
	ATLANTA WEST	3.20	3.10		N	$486	GA011822	EXTERIOR LAMPS: 100W HPS	L	$1,500

REGION	FIELD OFFICE	SIR	PAYBACK	BTU SAVINGS	REBATE	ANNUAL $ SAVINGS	BUILDING #	PROJECT NAME	PROJECT CODE	PROJECT COST
	ATLANTA EAST	2.60	4.90		N	$10,740	GA0087RD	REPLACE INCAND EXIT LTS W/LED	L	$2,500
	ATLANTA EAST	1.60	8.80		N	$22,698	GA0044ZZ	REPLACE 1 30-YR OLD 125T CHILLER	H	$200,000
	ATLANTA EAST	1.80	6.40		N	$3,880	GA0084ZZ	ADD OA ECONOMIZER OPERATION	H	$25,000
	ATLANTA WEST	2.20	5.20		N	$19,300	GA0121ZZ	INSTALL FLUORESCENT REFLECTORS	R	$100,100
	COLUMBIA	1.30	7.50		N	$2,000	SC0018ZZ	HVAC AMBIENT PROCESSOR CONTROL	H	$15,000
	SAVANNAH	2.30	3.30		N	$600	4PA-GS BUILDINGS	NEW SEALS-ENTRANCE DOORS-RACON	B	$2,000
	NASHVILLE	1.50	8.60		N	$9,600	4PA-IN BUILDINGS	INTERIOR STORM WINDOWS	W	$82,100
	NASHVILLE	4.10	3.30		N	$6,200	4PA-IN BUILDINGS	CEILING INSULATION	I	$22,000
	NASHVILLE	1.60	7.30		N	$4,240	4PA-IN BUILDINGS	DROPPED CEILING IN P.O.	B	$34,500
	NASHVILLE	1.50	6.40		N	$4,500	4PA-IN BUILDINGS	AMBIENT CONTROLS ON HVAC	H	$29,000
	ATLANTA WEST	2.30	4.20		N	$240	GA0125ZZ	INSTALL DHW FROM NL KING BLDG	H	$1,000
	NASHVILLE	1.60	7.90		N	$4,528	4PA-IN BUILDINGS	INSTALL INDEPENDENT HVAC SYSTEM	H	$51,100
	COLUMBIA	1.60	8.10		N	$4,800	4PA-SC BUILDINGS	REPLACE 276 EXIT LTS W/LED TYPE	L	$39,100
	COLUMBIA	2.70	3.60		N	$3,000	4PA-SC BUILDINGS	WEATHERSTRIP ENTRANCE DOORS	B	$10,600
	JACKSONVILLE	5.20	1.50		N	$680	FL0016ZZ	REPLACE INCANDESCENT FLOODS W/FLUORESCENTS	L	$1,000
	COLUMBIA	1.80	6.40		N	$4,700	4PA-SC BUILDINGS	INSTALL 233 MOTION DETECTORS	L	$30,200
	BIRMINGHAM	1.90	6.00		N	$6,708	AL0074ZZ	REPLACE 300 FLUORESCENT LIGHTS W/ HI EFFIC	L	$10,000
	NASHVILLE	1.80	5.60		N	$2,100	4PA-IN BUILDINGS	INSTALL MOTION DETECTORS	L	$13,500
	ATLANTA WEST	6.30	1.20		N	$25,084	GA0125ZZ	INSTALL COMPUTER TIED TO FO	E	$30,000
	ATLANTA WEST	2.10	4.10		N	$3,150	GA0125ZZ	RETROFIT OFFICE LIGHTS	L	$12,900
	MIAMI/FT.LAUDERDALE	2.20	4.40		N	$18,000	4PY-FM BUILDINGS	INSTALL MOTION DETECTORS	L	$80,000
	ATLANTA WEST	1.30	5.60		N	$192	GA0175ZZ	CEILING FANS ON PO WORKROOM	B	$1,100

REGION	FIELD OFFICE	SIR	PAYBACK	MBTU SAVINGS	REBATE	ANNUAL $ SAVINGS	BUILDING #	PROJECT NAME	PROJECT CODE	PROJECT COST
	NASHVILLE	3.30	3.50		N	$6,525	4PA-IN BUILDINGS	REPLACE INCANDESCENT LIGHTS	L	$23,000
	MIAMI/FT.LAUDERDALE	2.80	2.70		N	$15,000	4PY-FA BUILDINGS	INSTALL SOLAR FILM	W	$40,000
	JACKSON	1.40	8.60		N	$19,300	4PI-AJ BUILDINGS	STORM WINDOWS, JACKSON, VICKSBURG	W	$166,000
	MIAMI/FT.LAUDERDALE	2.00	3.80		N	$8,000	4PY-FA BUILDINGS	CAULK & WEATHERSTRIP	B	$30,000
	JACKSONVILLE	6.60	1.20		N	$860	FL006ZZZ	REPLACE INCANDESCENT FLOODS W/FLUORESCENTS	L	$1,000
	NASHVILLE	1.90	5.20		N	$25,800	TN0000AA	ENERGY MGT. SYSTEM - NASHVILLE BLDGS	E	$131,000
	JACKSON	1.60	6.40		N	$2,200	MS008JZZ	CHANGE 116 EXIT SIGNS	L	$14,000
	MONTGOMERY	1.30	5.30		N	$950	AL004BZZ	TEST/BALANCE HVAC & CONTROLS	M	$5,000
	MONTGOMERY	3.90	1.80		N	$1,125	AL001JZZ	REPLACE INCAND. W/FLUORESCENT	L	$2,000
	JACKSON	3.00	4.30		N	$1,200	MS008JZZ	ADD INSULATION TO TOP OF WALL	I	$18,000
	JACKSON	1.50	8.70		N	$30,210	MS008JZZ	CHANGE BALLAST, LAMP	L	$261,000
	BIRMINGHAM	3.50	3.60		N	$1,100	AL001JZZ	REMOVE/REPLACE ATTIC INSULATION	I	$4,000
	JACKSONVILLE	2.00	3.20		N	$14,650	FL006ZZZ	VV MOTOR CONTROLS - CHW PUMPS	M	$54,600
	JACKSON	4.40	2.60		N	$1,000	MS008JZZ	REPLACE LOADING DOCK DOORS	B	$2,600
	JACKSONVILLE	3.40	2.20		N	$10,100	FL006ZZZ	INSTALL 35 WATT FLUORESCENTS	L	$22,500
	JACKSONVILLE	4.20	2.30		N	$9,200	FL006ZZZ	INSTALL MICROCOMPUTER FOR LIGHTS	E	$21,600
	JACKSON	2.90	3.40		N	$1,452	MS003JZZ	ADD 100 OCCUPANCY SENSORS	L	$5,000
	MOBILE	2.90	2.60		N	$960	AL0000AB	AIR-SIDE ECONOMIZER	M	$2,500
	MONTGOMERY	2.40	3.90		N	$515	AL001EZZ	CAULK AND WEATHERSTRIP WINDOWS	W	$2,000
	MOBILE	1.90	5.30		N	$3,000	AL0000AB	INSTALL MODULAR VALVES IN AHU	M	$16,000
	MOBILE	2.00	5.00		N	$378	AL0000AB	MOTION DETECTORS - MECH. RMS	L	$1,900
	MOBILE	3.10	3.20		N	$1,560	AL0000AB	CHILLED WATER RESET- FB CHILLER	M	$5,000
	JACKSONVILLE	1.70	4.50		N	$12,210	FL006ZZZ	VV MOTOR CONTROLS - COND PUMPS	M	$54,600
	MOBILE	3.30	2.30		N	$3,126	AL0000AB	LIGHT CONTROL BY OCC SYSTEM	L	$7,200
	MEMPHIS/TUPELO	1.50	7.70		N	$2,600	MS006ZZZ	INSTALL ENERGY MGT. SYSTEMS	E	$20,000
	MEMPHIS/TUPELO	2.40	4.70		N	$25,000	TN008BZZ	INSTALL ENERGY MGMT. SYSTEM	E	$118,000
	MOBILE	7.30	1.00		N	$12,000	AL0000AB	CAPACITORS FOR LOW POWER FACTOR	P	$12,300
	COLUMBIA	1.40	3.60		N	$4,300	SC005ZZZ	REMOVE/REPLACE SOLAR FILM	W	$15,000

REGION	FIELD OFFICE	SIR	PAYBACK	ABTU SAVINGS	REBATE	ANNUAL $ SAVINGS	BUILDING #	PROJECT NAME	PROJECT CODE	PROJECT COST
4	BIRMINGHAM	1.90	4.20		N	$722	AL0074ZZ	CAULK AND WEATHERSTRIP	B	$3,000
	JACKSONVILLE	2.20	3.50		N	$4,030	FL0016ZZ	VV MOTOR CONTROLS - CTWR FANS	H	$16,100
	JACKSONVILLE	2.10	4.70		N	$1,020	FL0016ZZ	INSTALL MICROCOMPUTR FOR LIGHTS	E	$4,800
	JACKSONVILLE	2.70	3.30		N	$11,912	FL0016ZZ	REDUCE OUTSIDE AIR	H	$49,000
	JACKSONVILLE	1.80	4.20		N	$4,370	FL0016ZZ	VV MOTOR CONTROLS - CHW PUMPS	H	$18,200
	JACKSONVILLE	1.60	4.70		N	$3,890	FL0016ZZ	VV MOTOR CONTROLS - COND PUMPS	H	$18,200
	JACKSONVILLE	2.00	3.70		N	$68,760	FL0067ZZ	VV MOTOR CONTROLS - AH FANS	H	$280,400
	JACKSONVILLE	2.20	3.10		N	$12,470	FL0067ZZ	VV MOTOR CONTROLS - CTWR FANS	H	$47,300
	JACKSONVILLE	1.60	9.70		N	$14,100	FL0016ZZ	REPLACE CHILLERS, AVOID OVERHAUL	H	$137,200
	MIAMI/FT. LAUDERDALE	2.30	5.00		N	$12,000	FL0066AC	ADD PIS TO EXISTING EMCS	E	$60,000
	TAMPA	2.20	5.30		N	$11,236	FL0080ZZ	REFLECTORS ON 3 FLOORS	R	$59,600
	JACKSONVILLE	2.00	4.90		N	$7,050	FL0016ZZ	INSTALL A NEW EMCS	E	$36,500
	JACKSONVILLE	1.80	8.00		N	$25,230	FL0067ZZ	REPLACE CHILLERS, AVOID OVERHAUL	H	$201,100
	JACKSONVILLE	8.00	1.10		N	$995	FL0016ZZ	REPLACE INCANDESCENT EXIT SIGNS	L	$1,000
	JACKSONVILLE	1.70	4.50		N	$19,900	FL0067ZZ	VV MOTOR CONTROLS - RETURN FANS	H	$90,300
	MEMPHIS/TUPELO	4.40	2.50		N	$2,800	TN0088ZZ	INSTALL BOILER MONITOR	H	$7,000
	JACKSONVILLE	1.50	5.20		N	$3,060	FL0067ZZ	VV MOTOR CONTROLS - POTABLE PUMP	H	$15,800
	TAMPA	2.50	4.70		N	$14,183	FL0064AE	REFLECTORS ON 3 FLOORS	R	$60,000
	JACKSONVILLE	12.60	0.60		N	$13,040	FL0016ZZ	REDUCE DOWNLAMPING	L	$7,800
	JACKSONVILLE	4.50	1.70		N	$4,860	FL0016ZZ	INSTALL 34 WATT FLUORESCENTS	L	$8,100
	JACKSONVILLE	1.50	6.50		N	$3,850	FL0015ZZ	INSTALL METAL HALIDE LAMPS	L	$24,500
	NASHVILLE	1.86	7.47		N	$44,000	TN0000AA	INSTALL CHILLER	H	$241,650
	JACKSONVILLE	3.20	3.90		N	$7,140	FL0067ZZ	INSULATE WALLS ABOVE PLENUM	I	$28,000
	RALEIGH	2.30	4.30		N	$11,635	NC0113ZZ	INSTALL NEW COMPUTER	E	$50,000
	SAVANNAH	2.50	5.20		N	$3,860	GA-65	REPLACE 142 EXIT LTS IN SAV BLDGS	L	$20,000
	SAVANNAH	1.90	6.20		N	$130	BUILDINGS GA0052ZZ	REPLACE 20 INCAND. FIXTURES	L	$300
	NASHVILLE	2.20	5.10		N	$7,200	TN0000AA	SEPARATE LIGHT CONTROLS	L	$37,000
	BIRMINGHAM	5.90	3.30		N	$21,903	AL2352ZZ	LIGHTING RETROFIT	L	$23,100
	MEMPHIS/TUPELO	1.10	8.30		N	$3,000	TN0079ZZ	INSTALL ENERGY MGT. SYSTEM	E	$25,000
	MEMPHIS/TUPELO	1.40	6.90		N	$2,010	TN0091ZZ	CAULK AND WEATHERPROOF	B	$10,000
	MEMPHIS/TUPELO	1.70	6.90		N	$2,900	TN0091ZZ	INSTALL ENERGY MGT. SYSTEM	E	$20,000
	TAMPA	2.70	4.30		N	$11,800	FL0082ZZ	REFLECTORS ON 3 FLOORS	R	$51,200

REGION	FIELD OFFICE	SIR	PAYBACK	MBTU SAVINGS	REBATE	ANNUAL $ SAVINGS	BUILDING #	PROJECT NAME	PROJECT COST	PROJECT COST
	MEMPHIS/TUPELO	1.80	6.30		N	$3,200	MS006722	INSTALL ENERGY MGT. SYSTEM	E	$70,000
	MEMPHIS/TUPELO	1.50	4.80		N	$2,400	MS008022	CAULK AND WEATHERPROOF	B	$10,000
	MEMPHIS/TUPELO	1.70	6.90		2900		MS008022	INSTALL ENERGY MGT. SYSTEM	E	$20,000
	MEMPHIS/TUPELO	1.90	6.00		N	$2,500	MS006622	DROP PO WARM CEILING, ETC.	B	$15,000
	MEMPHIS/TUPELO	1.90	6.20		N	$5,640	MS006622	INSTALL SEP. A/C FOR PO	H	$35,000
	MEMPHIS/TUPELO	1.70	6.20		N	$2,400	MS006722	CAULK AND WEATHERPROOF	B	$10,000
	SAVANNAH	2.30	5.00		N	$120	GA003622	REPLACE LIGHT FIXTURES	L	$800
	SAVANNAH	3.30	4.50		N	$1,110	GA002522	REPLACE ATTIC INSULATION	I	$5,000
	ASHEVILLE	2.10	5.60		N	$1,800	NC001322	REPLACE INCAND LTG, 2ND FLR	L	$10,000
	ASHEVILLE	3.80	3.00		N	$333	NC009722	REPLACE INCAND LTG IN MECH SPACES	L	$1,000
	ASHEVILLE	4.00	2.90		N	$210	TN002522	REPLACE INCAND LTG IN MECH SPACES	L	$700
	ASHEVILLE	3.00	3.50		N	$498	TN010822	REPLACE 6 ORIT LTS W/SODIUM VAPOR	L	$1,900
	ASHEVILLE	2.00	7.80		N	$473	TN010822	INTALL 71 STORM WINDOWS	W	$3,700
	BIRMINGHAM	1.50	5.40		N	$553	AL007822	CAULK AND WEATHERSTRIP	B	$3,000
	ASHEVILLE	2.00	7.20		N	$3,470	NC000522	INSTALL 155+ INTD/EXTRNL STRM SND	W	$25,000
	LOUISVILLE	3.20	3.10		N	$800	KY008622	AMBIENT CONTROL - WATER T. RESET	H	$7,500
	SAVANNAH	1.80	8.30		N	$960	FL004922	REPLACE ATTIC INSULATION	I	$8,000
	SAVANNAH	1.40	8.00		N	$250	GA007822	REPLACE LIGHT FIXTURES	L	$2,000
	SAVANNAH	1.90	6.00		N	$200	GA007522	REPLACE INCANDESCENT FITURES	L	$1,200
	ASHEVILLE	4.70	3.20		N	$570	TN010722	INSTALL 27 STORM WINDOWS	W	$1,800
	BIRMINGHAM	1.60	7.00		N	$1,422	AL007222	REPLACE BALLASTS/LAMPS W/HI EFFIC	L	$10,000
	ATLANTA/FT.LAUDERDALE	1.60	8.00		N	$2,000	4PY-FM BUILDINGS	REPLACE INCANDESCENT WITH FLUORESCENT	L	$16,000
	BIRMINGHAM	2.70	2.80		N	$707	AL008222	INSTALL LOBBY SOLAR FILM	W	$2,000
Total:										$4,083,200
S	BATTLE CREEK	1.30	3.00	24	N	$500	MI007722	INSTL TIMERS ON LGTG IN LOBBY, PO, AND CORRIDORS	L	$1,500
	BATTLE CREEK	6.90	1.62	140	N	$2,092	MI000086	REMOVE LGT FIXT WHERE SYS FURN HAS BEEN INSTALLED	L	$3,100
	TWIN CITIES	4.20	3.00	100	N	$596	MN007522	SEAL ALL WINDOWS BETWEEN GLASS & FRAME W/SILCN BASED CAULK	W	$1,200
	TWIN CITIES	1.05	7.59	196	N	$949	MN006522	INSTALL INSULATED GLASS ON INTERIOR OF 38 WINDOWS	W	$7,200

REGION	FIELD OFFICE	SIR	PAYBACK	MBTU SAVINGS	REBATE	ANNUAL $ SAVINGS	BUILDING #	PROJECT NAME	PROJECT CODE	PROJECT COST
	SPRINGFIELD	1.60	5.70	21	N	$395	IL021011	INSTL AMBIENT LGT LEVEL CNTRLS IN PERIMETER OFC SPACES	L	$2,250
	SPRINGFIELD	1.40	6.30	124	N	$2,129	IL030122	INSTL AMBIENT LGT LEVEL CNTRLS IN PERIMETER OFC SPACES	L	$13,500
	SPRINGFIELD	1.50	5.70	83	N	$1,574	IL022022	INSTL AMBIENT LGT LEVEL CNTRLS IN PERIMETER OFC SPACES	L	$9,000
	INDIANAPOLIS	1.80	5.43	126	N	$2,380	IN006811	REPLACE EXISTING MOTORS W/HI EFFI MOTORS	M	$14,000
	SPRINGFIELD	4.00	2.80	347	N	$6,642	IL021011	PURCHASE & INSTALL FLUOR LIGHTING REFLECTORS	R	$18,900
	SPRINGFIELD	4.00	2.80	58	N	$1,109	IL020622	PURCHASE & INSTALL FLUOR LIGHTING REFLECTORS	R	$3,150
	SPRINGFIELD	4.90	2.30	36	N	$854	IL020022	PURCHASE & INSTL FLUOR LIGHTING REFLECTORS	R	$1,980
	TWIN CITIES	11.30	1.03	962	N	$10,670	MN008722	SEAL WINDOWS ON FLRS 2-7 W/SILICONE BASED CAULK	M	$11,000
	CENTRAL	3.16	5.21	146	N	$634	IN004422	INSTALL INSUL BETWEEN RADIATORS & PERIMETER WALL	I	$3,300
	SPRINGFIELD	1.20	5.80	17	N	$308	IL021422	INSTL AMBIENT LGT LEVEL CNTRLS IN PERIMETER OFC SPACES	L	$1,800
	SPRINGFIELD	1.50	6.00	33	N	$620	IL015422	PURCHASE AND INSTALL FLUOR LIGHTING REFLECTORS	R	$3,700
	TOLEDO	1.66	6.76	3,326	N	$7,889	OH018622	REMOVE EXISTING AHU, REPLACE W/PKG UNIT FOR POST OFF.	M	$53,160
	LOOP	4.71	0.85	242	N	$4,680	IL0236FC	INSTALL LIGHT CNTRLS FOR THE TOILET ROOMS	L	$4,000
	LOOP	2.65	3.30	199	N	$3,845	IL020522	REPLACE BALLASTS W/ENERGY EFFI BALLASTS	L	$15,000
	MILWAUKEE	1.95	6.02	279	N	$1,330	WI009522	REPLACE FURNACE WITH ENERGY EFFIC FURNACE	M	$8,000
	CINCINNATI	10.58	0.83	1,491	N	$25,029	OH0169CN	INSTALL AUTOMATIC LIGHT CONTROLLERS	L	$20,880
	COLUMBUS	2.56	4.33	634	N	$8,908	OH018522	RETRO BLDG CORR W/NEW 214 FT 2 LAMP FLUOR FIXT	L	$39,500
	HIGHEST	1.70	5.10	25	N	$531	IL021522	INSTL AMBIENT LGT LEVEL CNTRLS IN PERIMETER OFC SPACES	L	$2,700
	SPRINGFIELD	1.90	4.60	41	N	$988	IL005922	INSTL AMBIENT LGT LEVEL CNTLRS IN PERIMETER OFC. SPACES	L	$4,500

REGION	FIELD OFFICE	SIR	PAYBACK	MBTU SAVINGS	REBATE	ANNUAL $ SAVINGS	BUILDING #	PROJECT NAME	PROJECT CODE	PROJECT COST
	SPRINGFIELD	1.90	4.60	18	N	$427	IL020022	INSTL AMBIENT LGT LEVEL CNTRLS IN PERIMETER OFC SPACES	L	$1,980
	SPRINGFIELD	1.60	5.70	29	N	$556	IL020622	INSTL AMBIENT LGT LEVEL CNTLS IN PERIMETER OFC SPACES	L	$3,150
	TWIN CITIES	1.50	9.37	255	N	$1,025	MN0007522	REPLACE BURNERS ON BOILER W/MORE EFFIC BURNERS	H	$9,600
	INDIANAPOLIS	1.48	5.96	90	N	$1,846	IN0013322	INSTALL AUTOMATIC LIGHT CONTROLLERS	L	$11,000
	SPRINGFIELD	5.00	2.30	397	N	$9,500	IL005922	PURCHASE AND INSTALL FLUORESCENT LIGHTING REFLECTORS	R	$21,645
	COLUMBUS	20.36	0.43	0	N	$11,520	OH018622	INSTALL ELECTRIC DEMAND METER	P	$3,000
	SPRINGFIELD	1.60	5.40	19	N	$376	IL021922	INSTL AMBIENT LGT LEVEL CNTRLS IN PERIMETER OFC SPACES	L	$2,025
	BATTLE CREEK	1.72	5.10	76	N	$1,560	IN0096122	UPGRADE CHILLED WATER TEMP CONTROLS	H	$8,000
	BATTLE CREEK	1.35	6.50	30	N	$615	IN0096222	REPLACE FLUOR LAMPS IN GARAGE W/HI PRES SODIUM LAMPS	L	$3,000
	AKRON	2.01	3.00	323	N	$6,000	OH019422	UPGRADE MAIN HVAC CONTROLS	H	$18,000
	LOOP	4.61	1.91	284	N	$5,490	IL0236FC	INSTL LOW PRESSURE SODIUM LAMPS ON THE P & SM GARAGE LEVEL	L	$10,500
	BATTLE CREEK	1.89	6.00	75	N	$1,375	IN0096222	INSTALL FLUORESCENT LIGHTING REFLECTORS	R	$8,250
	SPRINGFIELD	2.30	3.80	10	N	$297	IL022322	INSTL AMBIENT LGT LEVEL CNTRLS IN PERIMETER OFC SPACES	L	$1,125
	SPRINGFIELD	2.00	4.40	41	N	$1,022	IL022222	INSTL AMBIENT LGT LEVEL CNTRLS IN PERIMETER OFC SPACES	L	$4,500
	MIDWEST	1.90	3.50	18	N	$3,560	IL021522	INSTALL DUCT RETURN	B	$16,190
	INDIANAPOLIS	1.91	4.60	63	N	$1,300	IN0031222	INSTALL AUTOMATIC LIGH CONTROLLERS	L	$6,000
	TWIN CITIES	4.07	3.45	6	N	$1,130	MN0007522	INSTL VARIABLE SPEED MOTORS ON AIR HANDLERS	H	$3,900
	DETROIT	1.40	9.50	256	N	$1,475	MI0097222	INSULATE ATTIC	L	$14,000
	AKRON	2.00	3.60	431	N	$10,000	OH019422	INSTALL MULTIZONE RESET CONTROLLERS	H	$36,000
	TWIN CITIES	1.64	8.55	79	N	$341	MN0088222	INSTALL STORM WINDOWS	W	$3,000
	CLEVELAND	3.36	2.63	14	N	$380	OH010022	INSTALL AUTOMATIC LIGHT CONTROLLERS	L	$1,000
	COLUMBUS	4.44	0.75	49	N	$1,860	OH014322	REPLACE INCAND LAMPS W/FLUOR LAMPS	L	$1,100
	CLEVELAND	2.93	4.06	67	N	$861	OH010022	LOWER FIRST FLOOR CEILING	B	$3,500
	TWIN CITIES	2.56	5.50	122	N	$805	MN0007522	EXPAND EFFI OF ENERGY MGMT. SYSTEM	E	$4,500

REGION	FIELD OFFICE	SIR	PAYBACK	MBTU SAVINGS	REBATE	ANNUAL $ SAVINGS	BUILDING &	PROJECT NAME	PROJECT CODE	PROJECT COST
	COLUMBUS	3.19	1.05	30	N	$1,330	OH01862Z	REPLACE INCAND LAMPS W/FLUOR LAMPS	L	$1,400
	DETROIT	3.56	1.15	736	N	$15,635	MI01316C	INSTALL LIGHT CONTROLLERS	L	$18,000
	COLUMBUS	8..8	1.08	0	N	$8,608	OH01432Z	INSTALL ELECTRIC DEMAND METER	P	$5,000
	COLUMBUS	1.67	5.30	0	N	$944	OH00462Z	INSTALL ELECTRIC DEMAND METER	P	$5,000
	SPRINGFIELD	1.40	6.30	165	N	$2,858	IL01732Z	INSTL AMBIENT LGT LEVEL CNTLRS IN PERIMETER OFC. SPACES	L	$18,000
	SPRINGFIELD	1.78	4.90	50	N	$1,091	IL01542Z	INSTL AMBIENT LGT LEVEL CNTRLRS IN PERIMETER OFC. SPACES	L	$5,100
	AKRON	1.64	2.35	323	N	$10,200	910194ZZ	INSTALL LIGHT REFLECTORS	R	$24,000
	SPRINGFIELD	3.60	3.10	865	N	$14,976	IL01732Z	PURCHASE AND INSTL FLUOR LIGHTING REFLECTORS	R	$47,160
	LOOP	13.33	0.40	781	N	$15,105	IL02386C	INSTALL LIGHT CNTRLR FOR THE 26TH FLOOR	L	$6,000
	SPRINGFIELD	1.40	7.10	162	N	$1,982	IL02132Z	INSTALL ENERGY MGMT. SYSTEM	E	$14,146
	MILWAUKEE	3.90	2.20	35	N	$591	WI00642Z	INSTALL AUTOMATIC LIGHT CONTROLLERS	L	$1,328
	LOOP	1.71	2.50	1,176	N	$3,225	IL02052Z	REPAIR INOPERATIVE GARAGE DOORS	D	$3,000
Totals										$625,619
6	DOWNTOWN	3.11	9.10	1,449	N	$20,798	AD01112Z	WINDOW REPLACEMENT - SINGLE PANE TO THERMOPANE	W	$953,000
Totals										$953,000
7	LITTLE ROCK	1.30	8.90	1,026	N	$23,000	AR00632Z	ADD PANE TO WINDOWS	W	$216,000
	NEW ORLEANS	2.30	5.30		N	$11,307	LA00332Z	SPECULAR REFLECTORS	R	$70,200
	DENVER FED CTR	1.30	9.60		N	$36,161	C00511AA	SPECULAR REFLECTORS	R	$364,000
	LITTLE ROCK	1.30	9.60		N	$71,800	AR00632Z	CONSOLDATE COOLING PLANTS	M	$806,000
	DALLAS	1.90	6.10		N	$37,434	T1005804	SPECULAR REFLECTORS	R	$431,000
	DALLAS	1.90	6.10		N	$29,847	T1029ZZZ	SPECULAR REFLECTORS	R	$225,000
	DENVER FED CTR	1.30	9.10		N	$33,776	C00627AA	SPECULAR REFLECTORS	R	$369,000
	ALBUQUERQUE	3.00	4.00		N	$20,665	NM00382Z	SPECULAR REFLECTORS	R	$96,200
	DENVER FED CTR	1.30	9.10		N	$46,094	C00516AA	SPECULAR REFLECTORS	R	$504,000
	DENVER FED CTR	2.00	4.80		N	$17,155	C00533AA	PLATE HEAT EXCHANGER	H	$97,000

REGION	FIELD OFFICE	SIR	PAYBACK	MBTU SAVINGS	REBATE	ANNUAL $ SAVINGS	BUILDING #	PROJECT NAME	PROJECT CODE	PROJECT COST
7	DENVER FED CTR	11.10	1.40	21,100	N	$78,164	C00533AA	EMCS	E	$125,000
	FORT WORTH	1.40	2.30	0	N	$105,575	I1022422	SPECULAR REFLECTORS	R	$903,000
	DENVER FED CTR	1.30	9.70		N	$42,094	C00530AA	SPECULAR REFLECTORS	R	$475,000
	AUSTIN	3.40	4.00		N	$8,690	I111278I	NEW PARABOLIC LIGHTS	L	$35,100
	FT WORTH	3.23	3.30	2,615	N	$23,128	I1022422	SOLAR FILM	W	$78,000
	OKLA. CITY	1.33	9.00		N		OK0098CI	VARIABLE SPEED AIR HANDLING UNIT		$93,300
	NEW ORLEANS	6.75	2.10	********	N	$92,972	LA0065II	NEW PARABOLICS	L	$225,000
	DALLAS	1.50	8.20		N	$21,046	I1029722	CONVERT ELEC BOILERS TO GAS	H	$175,000
	HOUSTON	4.42	2.80	471,100	N	$49,015	I1029822	SOLAR FILM	W	$135,000
	DALLAS	2.56	6.30	********	N	$158,542	I1028A0A	SPECULAR REFLECTORS	L	$1,035,000
Total:										$6,674,100
9	312 N SPRING L.A.	1.33	9.00		N		CA0011II	MOTION SENSOR LIGHTING CONTROLS	L	$25,000
	SACRAMENTO	1.33	9.00		N		CA0152II	RETROFIT WITH ELECTRONIC BALLASTS	L	$75,000
	BAKERSFIELD	1.33	9.00		N		CA0163II	RETROFIT WITH ELECTRONIC BALLASTS	L	$70,000
	SACRAMENTO	1.33	9.00		N		CA0152II	75 TON CHILLER FOR OVERTIME A/C		$100,000
	STOCKTON	1.33	9.00		N		CA0277?P	INSTALL MOTION SENSOR LIGHTING CONTROLS	L	$10,000
	ALASKA	1.99	5.20		N	$38,400	AK0031AA	UPGRADE EMS FOR EXISTING COMPUTER SYSTEM	E	$200,000
	PUGET SOUND	1.08	3.90		N	$3,550	WA0811KA	INSTALL SOLAR FILM	W	$15,000
	P.S.	1.55	8.40		Y	$36,000	WA0094?2	REPLACE LIGHT FIXTURES	L	$359,966
	300 NORTH L.A.	1.33	9.00		N		CA0150II	MOTION SENSOR LIGHTING CONTROLS		$70,000
	300 NORTH L.A.	1.33	9.00		N		CA0150II	CONVERT SUB-BASEMENT FLUORESCENT LIGHTS TO SODIUM VAPOR		$25,000
	SACRAMENTO	1.58	8.90		N		CA0186II	INSULATION AND GLAZING	W	$36,750
	WEST LOS ANGELES	2.01	5.90		N	$12,800	CA0168II	RETROFIT SOLAR HOT WATER SYSTEM	H	$75,000
	PHOENIX	2.56	4.80		N	$3,113	CA0213II	RETROFIT LIGHTING SYSTEM	L	$15,000
	PUGET SOUND	1.47	9.00		N	$7,500	WA0533BN	CONSTRUCT ENTRANCE VESTIBULES (WA0053&BN)	B	$70,000
	WEST LOS ANGELES	1.75	3.50		N		CA0168II	INCREASE OUTSIDE AIR	H	$97,000
	312 N. L.A.	5.80	1.30		Y		CA0149II	REPLACE BALLAST	H	$28,500
	LAGUNA NIGUEL	2.00	7.20		N	$29,095	CA0206II	REPLACE (UPGRADE) BOILERS	H	$211,000
	NEVADA	2.71	3.10		N	$3,600	NV0013II	REPLACE LIGHT BALLAST	L	$11,471
	SACRAMENTO	1.41	9.60		N	$4,357	CA0152II	INSULATE SPANDREL GLASS	I	$12,000
	SACRAMENTO	1.67	7.90		N	$6,075	CA0152II	ENERGY EFFICIENT MOTORS	M	$17,880

REGION	FIELD OFFICE	SIR	PAYBACK	MBTU SAVINGS	REBATE	ANNUAL $ SAVINGS	BUILDING #	PROJECT NAME	PROJECT COST	PROJECT COST
	SACRAMENTO	2.19	3.40		N	$5,535	CA015222	MOTION DETECTOR LIGHT SWITCH	L	$18,752
	SACRAMENTO	1.65	7.00		N	$17,712	CA015222	150 TON CHILLER	H	$122,640
	SACRAMENTO	1.73	6.80		N	$18,900	CA015222	ENERGY EFFICIENT BALLASTS	L	$128,700
	SACRAMENTO	2.15	5.20		N	$2,162	CA005322	ENERGY SAVING MOTORS (17)	H	$12,887
	SACRAMENTO	2.01	6.00		N	$3,038	CA016322	AIR HANDLER VALVES	H	$18,030
	LAGUNA NIGUEL	2.06	1.30		N	$21,465	CA629522	REPLACE LT BALLAST	L	$27,744
	NEVADA	2.33	3.20		N	$4,000	NV001322	EVAP COOLING	H	$14,797
	NEVADA	3.24	3.10		N	$16,079	NV001322	ENERGY MANAGEMENT	E	$50,000
	NEVADA	1.30	3.20		N	$7,500	NV001322	REP LT BALLAST	L	$24,005
	NEVADA	1.32	8.00		N	$7,500	NV001322	SOLAR POWER PARKING LIGHTS	L	$20,000
	NEVADA	2.66	2.30		N	$4,600	NV001322	INSTALL MOTION DETECTOR	L	$10,885
	NEVADA	1.56	6.40		N	$5,103	NV001422	ENERGY MANAGEMENT SYSTEM	E	$33,000
	SACRAMENTO	2.46	3.00		N	$4,934	CA016322	SOLAR FILM	W	$15,000
	SACRAMENTO	1.91	3.90		N	$15,696	CA015222	SOLAR FILM	W	$50,996
	SACRAMENTO	1.74	6.90		N	$12,657	CA015222	RETURN AIR FOR 1ST FLOOR	H	$88,000
	NORTH SPRING ST.	3.30	0.80		N	$26,325	CA004122	CALIB & REP DAMPERS	H	$21,500
	NORTH SPRING ST.	1.31	2.60		N	$99,954	CA004122	REP LT BALLAST	L	$264,490
	NORTH SPRING ST.	2.49	2.40		N	$69,012	CA004122	SEAL WINDOW	W	$117,000
	NORTH SPRING ST.	2.44	4.30		N	$30,040	CA019122	REPLACE (UPGRADE) CHILLERS	H	$129,000
	SEATTLE	1.24	3.00		N	$56,390	WA0953XC	REPLACE BOILERS	H	$162,000
	SEATTLE	1.88	6.50		N	$11,400	WA0821KF	ENTRANCE VESTIBULES	D	$75,000
	NORTH LOS ANGELES	2.86	2.20		N	$18,000	CA015022	LIGHT AND MOTION DETECTORS	L	$50,000
	SPOKANE	2.87	4.60		N	$3,472	WA005322	BALANCE AC, NEWORK SYS.	H	$16,600
	PORTLAND	2.10	2.00		N	$12,600	OR004322	RELAMP & INSTALL PHANTOM TUBES	L	$25,000
	PUGET SOUND	1.57	6.70		N	$13,500	WA0811KA	RELAMP/REBALLAST LING FIXTURES	L	$90,000
	LAGUNA NIGUEL	2.98	2.60		N	$7,511	CA052155	INSTALL CHILLER RESET CONTROL	H	$20,000
	PUGET SOUND	1.43	6.90		N	$36,500	WA0000KF	REPLACE LIGHTING FIXTURES	L	$350,000
	SACRAMENTO	3.20	3.60		N	$17,121	CA015222	EMERGENCY LTS. & EXIT SIGNS	L	$61,248
	SPOKANE	1.20	6.10		N	$1,914	WA006422	INSTALL REFLECTIVE FILM	W	$12,000
	NEVADA	2.92	4.00		N	$11,686	NV000522	RETROFIT CHILLERS	H	$50,000
	SAN DIEGO	2.03	6.08		N	$24,000	CA016222	VARIABLE SPEED FANS	H	$450,000
	NORTH LOS ANGELES	3.12	2.80		N	$22,048	CA015022	OZONE WATER TREATMENT	O	$62,000
	NORTH LOS ANGELES	2.94	3.50		N	$42,120	CA015022	AH, EF. MOTOR CONTROL	H	$150,000
	NORTH LOS ANGELES	2.91	3.60		N	$48,600	CA015022	COOLING TOWER ECONOMIZER	H	$175,000

REGION	FIELD OFFICE	SIR	PAYBACK	ADJU SAVINGS	REBATE	ANNUAL $ SAVINGS	BUILDING #	PROJECT NAME	PROJECT CODE	PROJECT COST
	NORTH LOS ANGELES	2.79	3.20		N	$6,683	CA015022	AUTO ADVANCE FILTER CONTROL	M	$25,100
	NORTH LOS ANGELES	2.83	3.70		N	$10,500	CA015022	COILS & DAMPERS SETS	M	$150,000
	NORTH LOS ANGELES	2.98	3.50		N	$5,690	CA015022	LIGHT MOTION SENSORS	L	$20,000
	NEVADA	2.87	3.60		N	$16,605	NV000122	REPLACE LIGHT BALLAST	L	$60,590
	NORTH LOS ANGELES	2.02	3.90		N	$19,028	CA015022	CLOG BELT & PULLEYS	M	$75,000
	NORTH LOS ANGELES	2.96	2.70		N	$129,570	CA015022	LIGHTING CONTROLS	L	$350,000
	NORTH LOS ANGELES	3.20	3.80		N	$45,315	CA015022	TOWER ECONOMIZER	M	$175,000
	NORTH LOS ANGELES	2.00	3.90		N	$6,299	CA015022	ATL AIR CONTROL & SOFT START	M	$25,017
	NORTH LOS ANGELES	2.00	4.00		N	$6,299	CA015022	AUTO ADVANCE FILTER CONTROL	M	$25,017
	NORTH LOS ANGELES	2.60	4.70		N	$42,024	CA015022	COIL AND DAMPER SITES	M	$200,000
	NORTH LOS ANGELES	2.77	2.80		N	$12,120	CA015022	VESTIBULE ENCLOSURE	B	$36,000
	SAN DIEGO	3.37	2.70		N	$19,111	CA016522	OZONE WATER TREATMENT	O	$51,000
	SAN DIEGO	2.33	5.30		N	$79,800	CA016222	SUPPLY & RETURN FANS	M	$423,000
	SANSOME	1.75	7.00		N	$22,080	CA009722	RETROFIT LIGHT FIXTURES	L	$156,705
	SANSOME	1.74	7.00		N	$59,186	CA023522	RETROFIT LIGHT FIXTURES	L	$420,050
	SANSOME	1.74	7.00		N	$12,923	CA014722	RETROFIT LIGHT FIXTURES	L	$92,070
	SANSOME	1.74	7.00		N	$96,926	CA009122	RETROFIT LIGHT FIXTURES	L	$687,840
	SANSOME	1.94	5.10		N	$19,385	CA009122	INSTALL MOTION DETECTORS	L	$100,000
	EAST BAY	1.70	1.00		N	$13,992	CA0777KK	NEW THERMOSTAT CONTROLS	M	$15,000
	LAGUNA MIGUEL	1.33	2.00		N	$6,990	CA018522	REP LT BALLAST	L	$14,000
	EAST BAY	2.56	4.80		N	$3,113	CA021322	RETROFIT LIGHTING SYSTEM	L	$15,000
	EAST BAY	2.29	6.30		N	$4,915	CA026022	OZONE WATER TREATMENT	O	$31,000
	PHOENIX	2.42	5.10		N	$8,800	AZ005222	REDUCE FAN SPEED/AIR BALANCE	M	$15,000
	LAGUNA MIGUEL	2.07	3.80		N	$4,176	CA052155	CONVERT R FLOOD W/PL LAMPS	L	$14,000
	LAGUNA MIGUEL	2.02	5.00		N	$3,848	CA052155	INSTALL OPTICAL REFLECTORS	R	$20,000
	LAGUNA MIGUEL	2.02	4.00		N	$4,576	CA052155	INSTALL AIR PMP SPEED DRIVE	M	$18,600
	EAST BAY	2.56	3.30		N	$4,500	CA0260	SOLAR SCREENS	M	$15,000
Totals										$7,752,106
Totals										$30,575,875

FISCAL YEAR 1993 ENERGY PROJECTS

REGION	FD	BUILDING	PROJNAME	PROJECT COST	SIR	PAYBACK
02	HARTFORD CT005922		LIGHTING RETROFIT	$223,000	1	5
02	HARTFORD CT006122		LIGHTING RETROFIT	$113,000	1	6
02	POCH MA001122		LIGHTING RETROFIT	$129,000	2	4
02	AUGUSTA ME00218J		LIGHTING RETROFIT	$15,000	2	9
02	MANCHESTER NH003622		LIGHTING RETROFIT	$128,000	1	5
02	NEW JERSEY NJ010B22		LIGHTING RETROFIT	$1,157,000	1	5
02	NEW JERSEY NJ010B22		INSTALL MOTION SENSORS	$21,000	3	3
02	SYRACUSE NY001622		INSTALL EMS	$38,000	3	2
02	ALBANY NY005922		REPLACE DETERIORATED WINDOWS	$15,000	4	4
02	GREATER MAN NY012B22		REPLACE AUTOMATIC CONTROL VALVES	$52,000	13	1
02	COURT HOUSE NY013022		LIGHTING RETROFIT	$273,000	2	3
02	BATTERY NY021122		INSTALL NEW INTERIOR STORM WINDOWS	$40,000	2	6
02	SYRACUSE NY021B22		INSTALL EMS	$38,000	3	1
02	BROOKLYN NY027022		LIGHTING RETROFIT	$1,012,000	2	3
02	SYRACUSE NY028122		EMS UPGRADE	$128,000	5	1
02	FEDERAL PLA NY028222		INSTALL HIGH PRESSURE SODIUM-GARAGE	$90,000	1	7
02	FEDERAL PLA NY028222	JAVITS ADDITION FLOORS 2ND - 41ST	ECO-14 LIGHTING RETROFIT	$878,956	7	1
02	BUFFALO NY030222		EMS UPGRADE	$199,000	4	1
02	BUFFALO NY030222		INSTALL LED EXIT SIGNS	$31,000	3	6
02	BUFFALO NY030222		LIGHTING RETROFIT	$0	0	0
02	LONG ISLAND NY240222		INSTALL LED EXIT SIGNS	$33,000	5	3
02	SAN JUAN PR001722		ENERGY MANAGEMENT SYSTEM UPGRADE	$179,000	8	1
02	BURLINGTON VT001B22		LIGHTING RETROFIT	$27,000	1	5
02	BURLINGTON VT002422		INSTALL EMS	$157,000	5	1
02	BURLINGTON VT002622		LIGHITNG RETROFIT	$64,000	1	4
TOTAL FUNDED:				$5,040,956		
03	CHESAPEAKE DE001622		REPLACE LIGHTS	$11,600	2	5
03	CHESAPEAKE MD005522		INSTALL ENERGY EFFICIENT MOTORS	$34,000	4	4

03		MD0068ZZ	INSTALL T-8 LAMPS & ELECTRONIC BALLAST	$600,000	3	10
03		MD0068ZZ	INSTALL VARIABLE SPEED DRIVERS & CONTROLS	$90,000	4	2
03		MD0068ZZ	INSTALL COMPACT FLUORESCENT LAMPS	$18,000	3	2
03	MIDDLE RIVE	MD1193ZZ	RETROFIT LIGHTS	$25,000	7	2
03	CAMDEN	NJ0015ZZ	REPLACE LIGHTS	$15,100	3	4
03	CAMDEN	NJ0088ZZ	REPLACE LIGHTS	$33,700	3	4
03	CAMDEN	NJ0114ZZ	INSTALL ENERGY MANAGMENT SYS	$25,000	2	9
03	EAST PHILAD	PA0143ZZ	RETROFIT LIGHTS	$0	20	1
03	EAST PHILAD	PA0143ZZ	REPLACE LIGHTS	$20,200	7	2
03	EAST PHILAD	PA0144ZZ	INSTALL NEW LIGHTING FIXTURES	$420,000	4	3
03	EAST PHILAD	PA0144ZZ	INSTALL MOTION SENSORS	$16,250	8	2
03	EAST PHILAD	PA0144ZZ	COMPACT FLUORESCENTS	$24,800	10	1
03	PITTSBURG	PA0158ZZ	INSTALL EMERGY EFFICIENT MOTORS	$15,250	3	5
03	WILKES BARR	PA0182ZZ	RETROFIT LIGHTS	$27,000	2	7
03	PITTSBURG	PA0233ZZ	RETROFIT HALLWAY LIGHTS	$85,400	5	3
03	WILKES BARR	PA0235ZZ	RETROFIT LIGHTS	$14,400	1	10
03	PITTSBURG	PA0275ZZ	RETROFIT LIGHTS	$23,800	1	9
03	EAST PHILAD	PA0277BG	INSTALL MOTION SENSORS	$40,500	6	2
03	EAST PHILAD	PA0278BG	RETROFIT LIGHTS	$750,000	3	5
03	RICHMOND	VA0054ZZ	ELECTRONIC CHILLER CONTROLS	$35,000	2	7
03	RICHMOND	VA0054ZZ	REPLACE LIGHTS	$34,600	3	4
03		VA0087ZZ	RETROFIT LIGHTS	$44,000	3	4
03	HUNTINGTON	VA0095ZZ	REPLACE LIGHTS	$24,000	3	4
03	HUNTINGTON	VA0095ZZ	REPLACE LIGHTS	$40,000	3	4
03		VA1405E1	RELAMPING	$17,100	3	5
03	HUNTINGTON	WV0053ZZ	RETROFIT LIGHTS	$18,000	5	3
03		WV1113CA	RETROFIT LIGHTS	$94,000	8	2
TOTAL FUNDED:				$2,596,700		
04	BIRMINGHAM	AL0028ZZ	LIGHTING RETROFIT	$0	2	7
04	BIRMINGHAM	AL0071ZZ	LIGHTING RETROFIT	$0	2	5
04	BIRMINGHAM	AL0072ZZ	LIGHTING RETROFIT	$0	2	7
04	BIRMINGHAM	AL0074ZZ	LIGHTING RETROFIT	$0	2	8

04		AL0081ZZ	BALLAST AND LAMP RETROFIT	$34,500	2	7
04	BIRMINGHAM	AL0082ZZ	LIGHTING RETROFIT	$0	2	7
04	BIRMINGHAM	AL2357ZZ	OCCUPANCY SENSOR	$10,832	7	1
04	BIRMINGHAM	AL2357ZZ	SOLAR FILM	$0	2	4
04	BIRMINGHAM	AL2357ZZ	LIGHTING RETROFIT - PILOT	$0	1	8
04	JACKSONVILL	FL0016ZZ	LIGHTING RETROFITS - EXIT SIGNS	$0	2	5
04	TAMPA	FL0051ZZ	LED EXIT SIGN	$0	2	6
04	JACKSONVILL	FL0057ZZ	DUCTWORK, SOLAR FILM, EXIT SIGNS	$0	3	4
04	JACKSONVILL	FL0067ZZ	EXIT LIGHT	$0	2	6
04	MIAMI	FL0079ZZ	LIGHTING RETROFIT	$321,341	3	5
04	MIAMI	FL0095AC	LIGHTING RETROFIT	$251,547	3	4
04	ATLANTA EAS	GA0115ZZ	LIGHTING RETROFIT	$0	1	9
04	ATLANTA WES	GA0118ZZ	EMS	$0	2	7
04	ATLANTA WES	GA0121ZZ	LIGHTING UPGRADE	$748,836	2	5
04	ATLANTA WES	GA0121ZZ	EMS EXPANSION	$0	3	3
04		GA2698ZZ	OCCUPANCY SENSORS	$20,000	10	1
04		KY0085ZZ	CAPACITOR INSTALL	$17,000	9	2
04		KY0085ZZ	PARKING LOT LIGHTING RETROFIT	$50,685	2	8
04		KY0085ZZ	LIGHTING RETROFIT	$251,612	4	3
04	JACKSON	MS0072ZZ	LIGHTING RETROFIT	$56,000	2	6
04	JACKSON	MS00E3ZZ	LIGHTING RETROFIT	$325,515	2	7
04	JACKSON	MS00E3ZZ	T8 LAMP & ELECTRONIC BALLAST	$0	1	9
04	RALEIGH	NC0113ZZ	VARIABLE SPEED DRIVE - AIR HANDLING UNIT	$0	2	7
04	NASHVILLE	TN0091ZZ	LIGHTING RETROFIT	$0	1	8
TOTAL FUNDED:				$2,087,868		
05	SPRINGFIELD	IL0200ZZ	LIGHTING UPGRADE	$16,026	2	6
05	CENTRAL	IL0209CF	INSTALL REFLECTORS, ELECTRONIC BALLASTS, & T8 LAMPS	$19,606	2	7
05	SPRINGFIELD	IL0220ZZ	LIGHTING RETROFIT	$44,869	2	5
05	SPRINGFIELD	IL0222ZZ	UPGRADE LIGHTING FIXTURES W/ ELECTRONIC BALLASTS	$16,026	2	7
05	INDIANAPOLI	IN0122ZZ	SSA ELKHART, IN. - MICROPROCESSOR	$14,500	3	3
05	INDIANAPOLI	IN0126ZZ	LIGHTING RETROFIT	$33,308	2	4

05	DETROIT	MI002922	LAMP AND BALLAST REPLACEMENT - FOB	$835,000	2	6
05	DETROIT	MI002922	EMS	$755,600	2	4
05	DETROIT	MI009722	LAMP AND BALLAST REPLACEMENT - PORT HURON BUILDING	$40,125	2	7
05	DETROIT	MI0131MC	ELEVATOR LIGHTING CONTROL INSTALLATION p.v.m.	$25,000	2	2
05	DETROIT	MI0131MC	PEPLACE LAMPS AND BALLASTS	$1,361,400	2	7
05	DETROIT	MI0131MC	REPLACE EXIT SIGNS THROUGH PVM BUILDING	$60,000	2	7
05	TWIN CITIES	MN00152Z	CHANGE BALLAST AND LIGHT TUBES	$25,000	1	8
05	TWIN CITIES	MN00492Z	CHANGE BALLASTS AND LIGHT TUBES	$20,500	1	9
05	TWIN CITIES	MN00762Z	UPDATE EMS 1ST. FLOOR AND BASEMENT	$25,000	2	7
05	TWIN CITIES	MN00852Z	CHANGE BALLASTS AND LIGHT TUBES	$19,000	1	6
05	TWIN CITIES	MN00861C	CHANGE BALLASTS AND LAMPS	$25,000	1	9
05	TWIN CITIES	MN00872Z	UPDATE EMS, 3RD FLOOR	$25,000	4	2
05	TWIN CITIES	MN00872Z	STORM WINDOWS, 3RD AND 4TH FLOORS	$25,000	3	5
05	TWIN CITIES	MN00872Z	CHANGE BALLASTS AND LIGHT TUBES	$25,000	1	9
05	TWIN CITIES	MN00882Z	CHANGE BALLASTS AND LIGHT TUBES	$17,000	2	6
05	TWIN CITIES	MN0521MB	CHANGE BALLASTS AND LIGHT TUBES	$11,000	1	8
05	CINCINNATI	OH0028CN	NEW LIGHT FIXTURES	$50,000	3	3
05	COLUMBUS	OH0143Z2	REPLACE BALLASTS	$30,700	1	7
05	COLUMBUS	OH0186Z2	REPLACE CEILINGS	$149,800	2	8
05	COLUMBUS	OH0186Z2	REPLACE SUPPLY FAN MOTORS	$24,120	32	0
05	CLEVELAND	OH0192Z2	RETROFIT HALLWAY LIGHTING AJC FOB	$137,816	2	6
05	CLEVELAND	OH0192Z2	17TH FLOOR OFAS RETROFIT LIGHTING	$78,750	2	6
05	COLUMBUS	OH0208CL	REPLACE R.A.F. MOTORS	$32,116	22	1
05	TWIN CITIES	WI0016Z2	CHANGE BALLASTS AND LIGHT TUBES	$15,000	9	0
05	MILWAUKEE	WI0082Z2	FIXTURE/LAMP/BALLAST RETROFIT	$14,436	2	5
05	MILWAUKEE	WI0094Z2	LIGHTING RETROFIT	$23,454	2	7
05	MILWAUKEE	WI0095Z2	LIGHTING RETROFIT	$22,486	1	10

05	MILWAUKEE	WI009622	LIGHTING RETROFIT	$21,134	2	6
05	MILWAUKEE	WI009E22	LIGHTING RETROFIT	$17,018	2	7
TOTAL FUNDED:				$4,055,790		
05	IOWA	IA003522	LIGHTING RETROFIT	$36,100	2	7
05	KANSAS CITY	MO003922	LIGHTING RETROFIT	$584,400	4	3
05		MO013422	LIGHTING REPLACEMENT	$335,500	1	7
06	FEDERAL CEN	MO0601AF	LIGHTING RETROFIT	$36,500	3	5
06	FEDERAL CEN	MO0603AF	LIGHTING RETROFIT	$307,000	2	5
06	FEDERAL CEN	MO0606AF	LIGHTING RETROFIT	$210,800	2	5
06	FEDERAL CEN	MO0612AF	LIGHTING RETROFIT	$260,300	2	6
06	FEDERAL CEN	MO0618AF	LIGHTING RETROFIT	$118,100	2	6
06	NEBRASKA	NE053122	LIGHTING RETROFIT	$334,400	2	7
TOTAL FUNDED:				$2,223,100		
07	LITTLE ROCK	AR003D22	RETROFIT LIGHTING/MISC. ENERGY CONSERVATION	$84,800	4	5
07	LITTLE ROCK	AR007B22	RETROFIT LIGHTING/MISC. ENERGY CONSERVATION	$129,890	3	4
07	NEW ORLEANS	LA0000NL	RETROFIT MV LIGHTS TO HPS	$80,000	2	7
07	NEW ORLEANS	LA003522	RETROFIT LIGHTING/MISC. ENERGY CONSERVATION	$196,000	3	6
07	ALBUQUERQUE	NM002422	RETROFIT LIGHTING/MISC ENERGY CONSERVATION	$317,730	5	4
07	ALBUQUERQUE	NM003222	RETROFIT LIGHTING/MISC. ENERGY CONSERVATION	$199,270	5	3
07	ALBUQUERQUE	NM003822	RETROFIT LIGHTING/ MISC. ENERGY CONSERVATION	$52,570	3	6
07		NM133822	INSTALL ELECTRONIC BALLASTS	$43,880	6	6
07	DALLAS	TX02B40A	MISC. ENERGY CONSERVATION	$103,172	3	7
07	DALLAS	TX029222	RETROFIT LIGHTING/ MISC. ENERGY CONSERVATION	$210,954	5	6
07		TX203822	LIGHTING RETROFIT	$147,365	3	4
07		TX203822	LIGHT SENSORS	$20,000	18	1
07	DALLAS	VARIOUS BUILDINGS	OCCUPANCY SENSORS	$92,000	2	6
07	SHREVEPORT	VARIOUS BUILDINGS	OCCUPANCY SENSORS	$25,000	2	5
TOTAL FUNDED:				$1,702,631		
08	DENVER	CO003922	RETROFIT LIGHTING/MISC. ENERGY CONSERVATION	$276,034	3	5

08	DENVER FEDE	CD0626AA/CD0519AA	COOLING TOWER/EVAPORATIVE COOLNG SYSTEM	$56,000	2	7
08	DENVER FEDE	CD0627AA	RETROFIT WINDOWS	$184,800	2	10
08	MONTANA	MT0028ZZ	MISC. ENERGY CONSERVATION	$47,900	3	5
08	MONTANA	MT0046ZZ	RETROFIT LIGHTING/MISC. ENERGY CONSERVATION	$159,000	2	8
08	NORTH DAKOT	ND0037ZZ	RETROFIT LIGHTING/MISC. ENERGY CONSERVATION	$179,580	2	7
08	NORTH DAKOT	ND0046ZZ	MISC. ENERGY CONSERVATION	$96,390	3	7
08	SOUTH DAKOT	SD0038ZZ	RETROFIT LIGHTING/MISC. ENERGY CONSERVATION	$87,270	2	8
08	SOUTH DAKOT	SD0040ZZ	RETROFIT LIGHTING/MISC. ENERGY CONSERVATION	$302,600	2	10
08		UT0036ZZ	REPLACE IRS COOLING TOWER	$0	0	0
TOTAL FUNDED:				$1,389,574		
09	PHEONIX	AZ0006ZZ	LIGHTING RETROFIT	$25,000	3	6
09	PHEONIX	AZ0006ZZ	INSULATE WINDOWS	$31,372	2	16
09	PHEONIX	AZ0010ZZ	LIGHTING RETROFIT	$70,000	2	6
09	PHEONIX	AZ0020ZZ	LIGHITNG RETROFIT	$25,000	2	2
09	PHEONIX	AZ0052ZZ	LIGHTING RETROFIT	$350,000	0	0
09	PHOENIX	AZ0052ZZ	EMS	$0	3	8
09	SACRAMENTO	CA0024ZZ	LIGHTING RETROFIT	$16,000	2	1
09	N. SPRING	CA0041ZZ	SOLAR FILM	$36,000	15	1
09	N. SPRING	CA0041ZZ	MOTION SENSORS	$46,000	0	0
09	N.SPRING	CA0041ZZ	MOTION SENSORS	$46,000	0	0
09	SACRAMENTO	CA0053ZZ	LIGHTING RETROFIT	$10,000	3	1
09	SACRAMENTO	CA0121ZZ	LIGHTING RETROFIT	$23,423	2	2
09	GOLDEN GATE	CA0154ZZ	REPLACE FLEXIBLE DUCT CONNECTORS	$29,291	0	0
09	SAN DIEGO	CA0167ZZ	LIGHTING MODIFICATIONS	$200,000	3	5
09	EAST BAY	CA0213ZZ	RETROFIT EXISTING FIXTURES TO T-8 LAMPS W/ELECTR BALLASTS	$825,000	5	0
09	EAST BAY	CA0221ZZ	SOLAR FILM	$13,000	0	0
09	EAST BAY	CA0260ZZ	LIGHTING RETROFIT	$295,000	2	7
09		CA0500RR	EMCS NETWORK - CHANGE ORDER FY92 PROJECT	$0	0	0
09	EAST BAY	CA0908OO	RETROFIT LIGHTING FIXTURES	$10,168	88	1
09	EAST BAY	CA0909OO	RETROFIT LIGHTING FIXTURES	$16,425	91	1

09	SACREMENTO	CA4664ZZ	LIGHTING RETROFIT	$795,000	4	2
09	EAST BAY	CA5235ZZ	RETROFIT LIGHTING FIXTURES	$65,457	1	2
09	HONOLULU	HI0011ZZ	LIGHTING RETROFIT	$1,000,000	2	4
09	HONOLULU	HI0011ZZ	HVAC FOR 4TH FLOOR OVERTIME	$150,000	5	5
09	NEVADA	NV0013ZZ	EXIT SIGN RETROFIT	$14,000	2	5
09	NEVADA	NV0288ZZ	EXIT SIGN RETROFIT	$11,000	2	2
TOTAL FUNDED:				$4,103,136		
10	SPOKANE	ID0026ZZ	RETROFIT LIGHT FIXTURES	$45,600	3	7
10	SPOKANE	ID0027ZZ	RETROFIT LIHGT FIXTURES	$28,400	2	10
10	SPOKANE	ID0029ZZ	REPLCE WINDOWS WITH TINTED LOW-E	$11,500	3	10
10	SPOKANE	ID0030ZZ	INSTALL ELECTRONIC BALLAST & T-8 TUBES	$75,000	2	7
10	SPOKANE	ID0030ZZ	INSTALL ENERGY EFFICIENT CONTROL SYS	$50,000	2	9
10	PORTLAND	OR0042Z	EMS INSTALLATION	$20,000	2	8
10	SPOKANE	WA0026ZZ	INSTALL ELECTRONIC BALLAST & T-8 TUBES	$11,000	2	7
10	SPOKANE	WA0030ZZ	REPLACE GLASS	$64,000	3	10
10	SPOKANE	WA0063ZZ	LIGHTING RETROFIT	$703,680	3	5
10	SPOKANE	WA0064ZZ	REPLACE WINDOWS WITH LOW-E	$110,000	3	10
10	SPOKANE	WA0064ZZ & WA0045ZZ	INSTALL EMS	$110,000	3	9
10	SPOKANE	WA0089ZZ	LIGHITNG RETROFIT	$10,080	2	9
TOTAL FUNDED:				$1,239,260		
11	HOTD	OC0001ZZ	LIGHTING RETROFIT	$250,000	3	4
11	NORTHEAST	OC0014ZZ	EMCS	$250,000	16	1
11		OC0019ZZ	REPLACE FLOURESCENT LIGHTING W/ENERGY EFFI FLOURE LIGHTING	$333,881	34	0
11	HEADQUARTER	OC0021ZZ	MOTION SENSORS	$60,000	6	2
11	HEADQUARTER	OC0021ZZ	LED EXIT LIGHTS	$35,000	3	6
11	HEADQUARTER	OC0021ZZ	ANL CONTROLS	$220,000	1	9
11		OC0023ZZ	RESTROOM LIGHTING & SWITCHING	$27,200	4	8
11	TRIANGLE	OC0029ZZ	LIGHTING RETROFIT	$0	35	0
11	TRIANGLE	OC0029ZZ	REPLACE LIGHT FIXTURES	$0	35	0
11	NORTHEAST	OC0030ZZ	EMCS	$190,000	1	8

11	LENFANT	DC0033ZZ	CONTROLS	$0	2	7
11	WHITE HOUSE	DC0035ZZ	LIGHTING RETROFIT AND LED EXIT LIGHTS	$250,000	3	7
11		DC0075ZZ	REPLACE OFFICE LIGHTING	$65,310	19	8
11	INDEPENDENC	DC0083ZZ	FAN/COIL UNIT CONTROLS	$0	1	8
11	INDEPENDENC	DC0084ZZ	LED EXIT LIGHTS	$15,000	2	4
11		DC0092ZZ	LIGHTING REPLACEMENT	$62,037	1	5
11	LAFAYETTE	DC0094ZZ	LIGHTING RETROFIT	$85,000	9	4
11		DC0115ZZ	GARAGE LIGHTING	$83,000	0	9
11		DC0115ZZ	BALLAST REPLACEMENT	$54,611	0	2
11		DC0115ZZ	MOTION SENSORS	$13,363	0	6
11	HOTD	DC0296ZZ	LIGHTING RETROFIT	$25,000	1	7
11	HOTD	DC0400ZZ	INSULATION	$250,000	20	1
11	TRIANGLE	DC0521AB	LIGHTING PROJECT	$0	9	0
11	TRIANGLE	DC0522AB	LIGHTING PROJECT	$0	9	0
11		DC1170ZZ	OCCUPANCY SENSOR INSTALLATION	$74,000	12	0
11		DC1170ZZ	T-8 LAMP/ELECTRONIC & OPTICAL REFLEC	$675,000	5	1
11	SUITLAND	MD0035AG	LIGHTING RETROFIT	$500,000	10	1
11		MD0199ZZ	REPLACE INCANDESCENT EXIST SIGNS W/FLUORESCENT EXIT SIGNS	$10,000	15	1
11		MD0531AJ	T-8 LAMP AND ELECT BALLAST	$600,000	2	4
11	ARLANDRIA	VA0003ZZ	LIGHTING RETROFIT	$47,400	5	2
11		VA1468BR	INSTALL MOTION SENSORS	$369,673	0	3
11		VA1468BR	INSTALL VARIABLE FREQUENCY DRIVE ON SECONDARY CHWP MOTORS	$46,500	1	6
TOTAL FUNDED:				$4,593,975		
NATIONAL TOTAL:				$29,032,990		

FISCAL YEAR 1992 ENERGY PROJECTS

REGION	FO	BUILDING	PROJNAME	PROJECT COST	SIR	PAYBACK
10	ALASKA	AK0013ZZ	EMS PROJECT	$650,000	0	0
10	SPOKANE	ID0008ZZ	INSTALL ENERGY EFFICIENT LIGHTING	$29,520	4	4
10	SPOKANE	ID0026ZZ	LIGHTING RETROFIT	$0	0	0

10	SPOKANE	10002722	LIGHTING RETROFIT	$0	0	0
10	SPOKANE	10002922	LIGHTING RETROFIT	$65,800	3	5
10	SPOKANE	10002922	EMS-SANDPOINT	$0	0	0
10	SPOKANE	10002922	SOLAR FILM	$0	0	0
10	SPOKANE	10003022	LIGHTING RETROFIT	$0	0	0
10	PORTLAND	OR002322	LIGHTING RETROFIT	$0	0	0
10	PORTLAND	OR004322	INSTALL 6650 T8 BALLAST/LAMP	$307,850	2	5
10	PORTLAND	OR004522	LIGHTING RETROFIT	$50,002	3	4
10	PORTLAND	OR004622	LIGHTING RETROFIT	$23,644	4	4
10	PORTLAND	OR005122	EMS-EUGENE	$0	0	0
10	PORTLAND	OR005122	LIGHTING RETROFIT	$0	0	0
10	PUGET SOUND	WA00008N	LIGHTING RETROFIT	$182,000	3	5
10	PUGET SOUND	WA00008N	REPLACE EXISTING ELECTRIC BOILERS W/ HIGH GAS BOILERS	$100,000	6	2
10	PUGET SOUND	WA00008KF	REPLACE LIGHTING FIXTURES	$239,601	0	0
10	SPOKANE	WA002622	LIGHTING RETROFIT	$0	0	0
10	SEATTLE	WA003522	STEAM TRAPS	$0	0	0
10	SEATTLE	WA003722	LIGHTING RETROFIT	$82,000	4	4
10	SPOKANE	WA005322	INSTALL ELECTRONIC BALLASTS AND T8 TUBES	$25,320	3	5
10	SPOKANE	WA006322	LIGHTING RETROFIT	$0	0	0
10	SPOKANE	WA006422	INSTALL ELECTRONIC BALLAST AND T8 TUBES	$275,340	3	4
10	SPOKANE	WA006422	EMS-SPOKANE	$0	0	0
10	SPOKANE	WA006422	STEAM TRAPS	$0	0	0
10	SPOKANE	WA008222	INSTALL ELECTRONIC BALLAST AND T8 TUBES	$97,144	4	4
10	SPOKANE	WA008922	LIGHTING RETROFIT	$0	0	0
10	SPOKANE	WA009322	INSTALL ELECTRONIC BALLASTS AND T8 TUBES	$38,880	4	4
10	PORTLAND	WA009422	LIGHTING RETROFIT	$67,275	3	5
10	SEATTLE	WA010122	LIGHTING RETROFIT	$1,373,331	2	8
10	SEATTLE	WA010122	LOBBY LIGHTS	$0	0	0
10	SEATTLE	WA070722	LIGHTING RETROFIT	$110,000	3	4
10	PUGET SOUND	WA0953KC	LIGHTING RETROFIT	$0	0	0

10	PUGET SOUND	WA0953KC	STEAM TRAPS	$0	0	0
TOTAL FUNDED:				$3,717,707		
11	WHITE HOUSE	DC0017ZZ	LIGHTING RETROFIT	$0	3	3
11	HEADQUARTER	DC0021ZZ	LIGHTING RETROFIT/CENTRAL OFFICE	$0	0	0
11	TRIANGLE	DC0029ZZ	LIGHTING RETROFIT - OLD POST OFFICE	$0	5	2
11	L'ENFANT	DC0031ZZ	ENERGY MANAGMENT CONTROL CENTER	$480,000	3	3
11	L'ENFANT	DC0034ZZ	MOTION DETECTORS, LIGHTING & EXIT SIGNS	$700,000	2	4
11	WHITE HOUSE	DC0048ZZ	LIGHTING RETROFIT - WINDER BLDG	$0	2	4
11		DC0092ZZ	VARIABLE SPEED MOTORS	$365,000	0	0
11		DC0092ZZ	INSTALL SOLAR FILMS	$136,811	0	0
11		DC0092ZZ	ISOLATE FAN COIL HT	$250,700	0	0
11	LAFAYETTE	DC0094ZZ	EXIT LIGHTS - NATIONAL COURTS	$0	2	6
11	WHITE HOUSE	DC0105ZZ	LIGHTING THROUGHOUT NEW EOB	$820,000	2	1
11	WHITE HOUSE	DC0105ZZ	LIGHTING RETROFIT - NEW EOB	$0	2	8
11	NORTHEAST	DC0114ZZ	MECHANICAL IMPROVEMENTS	$90,600	3	3
11		DC0116ZZ	REPLACE INCANDS W/FLOURESCENT	$50,000	0	0
11	SOUTHWEST	DC0177ZZ	LIGHTING RETROFIT	$0	6	1
11	SOUTHWEST	DC0177ZZ	INSTALL MOTION SENSORS	$0	17	0
11	SOUTHWEST	DC0177ZZ	CENTRAL PROGRAM CONTROLLER	$0	3	1
11	SOUTHWEST	DC0292ZZ	INSTALL MOTION SENSORS	$0	8	1
11	SOUTHWEST	DC0309ZZ	INSTALL MOTION SENSORS	$0	7	1
11	HOTO	DC0400ZZ	INSULATION	$0	20	1
11	SUITLAND	MD0036AG	CENTRAL PROGRAM CONTROLLER	$130,000	4	3
11	SUITLAND	MD0036AG	PROVIDE DOCK DOORS	$258,000	4	4
11	SUITLAND	MD0056AG	NEW LIGHTING FIXTURES -UNCR	$1,043,500	9	1
11	SUITLAND	MD0070AG	LIGHTING RETROFIT - SUITLAND HOUSE	$0	1	5
11	SUITLAND	MD0075ZZ	SENSORS - LIBRARY OF CONGRESS	$0	2	3
11	METRO NORTH	MD0093ZZ	INSTALL MOTION SENDSRS - ATF LAB	$0	10	1
11	SUITLAND	MD0106AG	HIGH EFFICIENCY MOTORS	$120,000	2	4
11	ARLANDRIA	VA0003ZZ	LIGHTING RETROFIT - US CTHOUSE	$0	5	2

11	ARLANDRIA	VA0507AN	LIGHTING RETROFIT - FRANCONIA B	$0	6	2
11	POTOMAC	VA141122	MOTION SENSORS - CRYSTAL MALL 284	$0	4	3
TOTAL FUNDED:				$4,444,611		
2		CT006122	REPLACE EXIT SIGNS	$0	5	3
2	POCH	MA001122	INSTALL ENERGY MANAGEMENT SYSTEM	$222,244	4	4
2		MA012922	LIGHTING RETROFIT	$0	2	9
2		ME006122	INSTALL WEATHER STRIPPING	$0	3	6
2		ME006122	HVAC MODIFICATION	$0	3	6
2	AUGUSTA	ME006122	LIGHTING RETROFIT	$309,125	3	3
2		ME006822	CHANGE ORDER, INSTALL EMS SYSTEM	$0	0	0
2		ME006822	INSTALL WINDOW FILM	$0	2	7
2	AUGUSTA	ME006822	LIGHTING RETROFIT	$186,136	3	4
2	MANCHESTER	NH001022	WINDOW REPLACEMENT	$53,724	5	2
2	MANCHESTER	NH003022	ELECTRICAL MODERNIZATION-LIGHTING	$186,136	3	3
2		NH003622	UPGRADE EMS SYSTEM	$0	5	1
2		NH003722	UPGRADE EMS SYSTEM	$0	4	1
2		NJ010822	UPGRADE EMS	$0	3	2
2		NJ014522	INSTLL EMS SYSTEM	$0	2	2
2		NJ435522	INSTALL EMS SYSTEM	$0	3	1
2		NY001622	CHANGE ORDER LIGHTING RETROFIT	$0	0	0
2	SYRACUSE	NY001622	INSTALL VARIABLE-SPEED DRIVE MOTORS	$41,410	7	1
2		NY002622	INSTALL LED EXIT SIGNS & SENSORS	$0	3	6
2	GREATER NAN	NY012822	LIGHTING RETROFIT	$222,016	8	1
2		NY013022	INSTALL TEMP CONTROL VALVES	$0	2	4
2		NY013022	INSTALL LED EXIT SIGNS	$0	3	6
2	US COURTHOU	NY013022	REPLACE STEAM TRAPS	$55,500	8	2
2		NY028122	CHANGE ORDER LIGHTING RETROFIT	$0	0	0
2		NY028222	CHANGE ORDER, LIGHTING RETROFIT CORRIDOR	$0	0	0
2	FEDERAL PLA	NY028222	LIGHTING RETROFIT	$594,683	8	1
2	FEDERAL PLA	NY028222	INSTALL LED EXIT SIGNS	$98,830	5	3

2		NY030022	CHANGE ORDER, LIGHTING RETROFIT	$0	0	0
2		NY030022	REMOVE AND REPLACE CHILLER	$0	2	7
2	BUFFALO	NY030222	INSTALL SOLAR FILM	$96,320	4	2
2	BUFFALO	NY030222	LIGHTING RETROFIT	$734,046	4	2
2	ROCHESTER	NY030422	INSTALLATION OF 100 TON CHILLER	$182,400	4	4
2		NY034922	CHNAGE ORDER, LIGHTING RETROFIT	$0	0	0
2		NY034922	INSTALL STEAM GUARD	$0	3	2
2	LONG ISLAND	NY034922	LIGHTING RETROFIT	$510,202	10	1
2		NY240222	REPLACE LIGHTING FIXTURES	$0	2	3
2		NY240222	INSTALL STEAM GUARD	$0	5	1
2		PR001722	CHANGE ORDER, CHILLER REPLACEMENT	$0	0	0
2		RI0000922	REPLACE CORRIDOR LIGHTING	$0	3	6
TOTAL FUNDED:				$3,492,772		
3		MD0541A0	ENERGY EFFICIENT MOTORS	$22,500	2	2
3		MD0541A0	REVOLVING DOORS	$90,000	1	2
3		MD0541A0/MD0512A0	MOTION SENSORS	$100,000	3	1
3	MIDDLE RIVE	MD0555AK	LIGHTING RETROFIT	$375,000	6	3
3	CAMDEN	NJ001522	LIGHTING RETROFIT AND MOTOR REPLACEMENT	$17,000	5	3
3	CAMDEN	NJ008822	LIGHTING RETROFIT	$10,000	5	3
3	EAST PHILAD	PA0000BG	ELECTRONIC TIMERS	$123,000	17	1
3	EAST PHILAD	PA0000BG	EXTERIOR LIGHTS	$35,500	10	1
3	WEST PHILAD	PA015322	LIGHTING RETROFIT	$50,000	7	2
3	PITTSBURGH	PA023322	VARIABLE SPEED CHILLER DRIVE	$100,000	6	2
3	PITTSBURGH	PA023322	INSTALL ENERGY EFFICIENT MOTORS	$29,000	5	3
3	PITTSBURGH	PA023322	LIGHT SENSORS	$20,000	5	3
3	EAST PHILAD	PA027760	LIGHTING RETROFIT	$790,745	9	2
3	EAST PHILAD	PA027830	LIGHTING RETROFIT	$632,425	6	2
3		PA046222	ENTRANCE LOBBY DOOR #3	$175,000	3	9
3		PA652022	FIXTURE RETROFIT	$157,000	2	9
3		PA652022	POWER FACTOR CORRECTION	$120,000	9	3
3		PA800122	LIGHTING RETROFIT	$750,000	0	0

3	RICHMOND	VA005422	LIGHTING RETROFIT	$100,000	3	6
3	RICHMOND	VA006222 AND VA006322	ENERGY MANAGEMENT SYSTEM	$25,000	5	3
3	RICHMOND	VA160822	LIGHTING RETROFIT	$150,000	3	6
3	HUNTINGTON	WV000222	ENERGY MANAGEMENT SYSTEM	$25,000	2	8
3	HUNTINGTON	WV001022	LIGHTING RETROFIT	$15,000	3	5
3	HUNTINGTON	WV003022	LIGHTIN RETROFIT	$28,000	2	9
3	HUNTINGTON	WV006722	REPLACE A/C UNIT	$25,000	2	7
3	HUNTINGTON	WV009522	ENERGY MANAGEMENT SYSTEM	$150,000	2	6
3		WV125022	SOLAR WINDOW FILM	$40,000	4	4
3		WV125022	LIGHTING RETROFIT	$750,000	2	8
3	HUNTINGTON	WV125122	LIGHTING RETROFIT	$25,000	2	7
TOTAL FUNDED:				$1,930,170		
4	BIRMINGHAM	AL007922	REFLECTOR LUMINAIRE INSTALLATION	$47,000	2	8
4		FL0029AD	LIGHTING RETROFIT	$35,747	0	0
4	JACKSONVILL	FL005722	CHILLER RETROFIT	$100,000	2	9
4	TAMPA	FL006422	LUMINAIRE RETROFIT	$132,448	4	2
4		FL0078AD	LIGHTING RETROFIT	$30,737	0	0
4	TAMPA	FL008222	LIGHTING RETROFIT	$220,747	5	2
4	TAMPA	FL008822	SOLAR FILM	$15,018	2	4
4	TAMPA	FL008822	ENERGY MANAGEMENT SYSTEM	$60,000	3	4
4	COLUMBIA	GA000922	T-8 LAMP AND ELECTRONIC BALLASTS	$10,000	3	3
4	ATLANTA (EA	GA004422	INTERIOR INSULATING WINDOWS	$15,000	3	8
4	ATLANTA	GA011822	SUPLEMENTARY HVAC SYSTEM	$15,000	3	8
4	ATLANTA\VES	GA012122	RUSSELL FB-CT LIGHTING PROJECT	$23,000	2	4
4		GA101622	LIGHTING MODERNIZATION	$166,440	2	5
4	MEMPHIS	KY005922	INTERIOR INSULATING WINDOWS	$16,000	3	9
4	LOUISVILLE	KY008922	ASHLAND FB EMS RETROFIT	$25,000	2	6
4	MEMPHIS	MS006522	ENERGY MANAGEMENT SYSTEM	$53,000	2	4
4	MEMPHIS	MS007922	ENERGY MANAGEMENT SYSTEM	$30,000	3	3
4	MEMPHIS	MS008222	ENERGY MANAGEMENT SYSTEM	$36,000	2	4
4	COLUMBIA	SC001822	INTERIOR INSULATING WINDOWS	$22,561	3	8
4	NASHVILLE	TN005222	BALLAST REPLACEMENT	$313,600	3	9
TOTAL FUNDED:				$1,367,298		

S	SPRINGFIELD	ILOOOODES	LIGHTING MODIFICATIONS	$14,000	2	6
S	SPRINGFIELD	ILOOOODES	VARIABLE FREQUENCY MOTORS	$0	2	6
S	SPRINGFIELD	ILOOOODES	LIGHTING UPGRADE	$0	2	7
S	LOOP	ILOOOOFC	NEW HVAC CONTROLS AND ENERGY MANAGEMENT SYSTEM	$700,000	2	6
S	LOOP	ILOOOOFC	REPLACE FLOUR. LIGHTED EXIT SIGNS WITH LED SIGNS	$183,963	6	3
S	LOOP	ILOOOOFC	REPLACE DOMESTIC WATER PUMP	$400,000	2	6
S	LOOP	ILOOOOFC	INSTALL CEILING SENSOR SYSTEM FOR WASHROOMS	$49,200	3	3
S		IL003322	INSTALL ELECTRICAL BALLAST	$0	0	0
S		IL003322	EXIT SIGNS	$0	0	0
S		IL003322	LIGHT CONTROLS	$0	0	0
S	CENTRAL	IL003322	REPLACE EXIT SIGNS W/LED EXIT SIGNS	$0	5	3
S	SPRINGFIELD	IL015422	EMS SYSTEM INSTALLATION	$49,500	2	5
S	SPRINGFIELD	IL015422	MOTOR UPGRADES	$15,914	2	8
S	SPRINGFIELD	IL015422	INSTALL STATS	$0	2	8
S	SPRINGFIELD	IL017322	THERMOSTATIC CONTROLS FOR STEAM RADIATORS	$0	2	7
S	LOOP	IL020522	RETROFIT ELECTRONIC BALLAST	$48,366	7	2
S	LOOP	IL020522	29TH & 30TH FLRS. (MECH.) AUTO. LIGHTING SYSTEM	$33,303	3	3
S	LOOP	IL020522	VACUUM BREAKERS AND CONTROL VALVES	$20,000	17	1
S	LOOP	IL020522	REPLACE FLUORESCENT LAMPS W/HIGH PRESSURE SODIUM LAMPS	$0	4	3
S	SPRINGFIELD	IL020622	MOTOR UPGRADES	$15,750	2	8
S	SPRINGFIELD	IL020622	LIGHTING PROJECTS	$11,000	2	7
S	SPRINGFIELD	IL020622	INSTALL VAV RETROFIT IN VENTILATION SYSTEM	$23,000	4	4
S	SPRINGFIELD	IL020622	VARIABLE FREQUENCY DRIVES	$0	2	4
S	SPRINGFIELD	IL021322	LIGHTING UPGRADE	$0	1	8
S	SPRINGFIELD	IL021422	LIGHTING UPGRADE	$0	2	6
S	SPRINGFIELD	IL021522	LIGHTING UPGRADE	$0	1	6
S	SPRINGFIELD	IL021922	LIGHTING UPGRADE	$0	1	9
S	SPRINGFIELD	IL022322	LIGHTING UPGRADE	$0	1	8
S	LOOP	IL0235FC	LIGHTING MODIFICATIONS	$600,000	2	6

S	LOOP	IL0236FC	INSTALL LIGHT CONTROLLERS - FLRS. 138,P.40-42	$41,629	3	3
S	LOOP	IL0236FC	TENANT BACKFILL - 6 EPA VACATED FLOORS	$100,000	2	6
S	LOOP	IL0236FC	DAMPERS REPLACEMENT	$84,000	6	2
S	SPRINGFIELD	IL0240ZZ	LIGHTING MODIFICATIONS	$12,000	1	8
S	SPRINGFIELD	IL0240ZZ	VARIABLE FREQUENCY DRIVES	$0	1	8
S	INDIANAPOLI	IN0031ZZ	INSTALL EMS	$0	3	2
S	INDIANAPOLI	IN0048ZZ	STORM WINDOWS	$12,800	2	7
S	INDIANAPOLI	IN0096ZZ	INSTALL EMS	$0	6	1
S	SPRINGFIELD	IN0104ZZ	INSTALL EMS	$0	1	8
S	INDIANAPOLI	IN0122ZZ	INSTALL ENERGY EFFICIENCY BALLAST AND LAMPS	$14,780	1	10
S	INDIANAPOLI	IN0126ZZ	INSTALL ENERGY EFFICIENT MOTORS	$12,000	2	8
S	INDIANAPOLI	IN0126ZZ	INSTALL ENERGY MANAGEMENT SYSTEM	$53,000	2	6
S	INDIANAPOLI	IN0133ZZ	INSTALL ENERGY EFFICIENT MOTORS	$17,150	2	7
S		IN0529JF	REPLACE WINDOWS	$710,000	0	0
S	DETROIT	MI0029ZZ	ADD CONTROL VALVES TO RADIATORS	$14,000	8	1
S	DETROIT	MI0029ZZ	ADD STORM WINDOWS ON ALL WINDOWS IN BUILDING	$750,000	4	4
S	DETROIT	MI0097ZZ	EMCS Purchase and Installation	$30,000	2	6
S	DETROIT	MI0118ZZ	Lighting Ballast and Flourescent Tube Replacement	$50,700	3	4
S	GRAND RAPID	MI0119ZZ	MOTOR CONVERSION	$12,214	5	3
S	DETROIT	MI0123ZZ	Lighting Ballast and Flourescent Tube Replacement	$15,600	2	5
S	DETROIT	MI0131MC	REPLACE LIGHTING IN MECHANICAL SPACES	$134,056	3	5
S	GRAND RAPID	MI0137ZZ	MOTOR CONVERSION	$25,567	5	2
S	DETROIT	MI0400ZZ	EMCS Purchase and Installation	$20,000	2	6
S	BATTLE CREE	MI053BBC	WANLASS MOTORS	$25,000	12	1
S	DETRIOT	MI0601D1	EMCS Purchase and Installation	$45,000	2	7
S	DETROIT	MI0601D1	LIGTHING BALLAST AND FLUORESCENT TUBE REPLACEMENT	$48,000	2	6
S	TWIN CITIES	MN00001C	CHANGE BALLASTS AND TUBES	$25,000	2	5
S	TWIN CITIES	MN00001C	INSTALL MOTION SENSORS	$25,000	3	3

5	TWIN CITIES	MN0015ZZ	CHANGE BALLASTS AND LIGHT TUBES	$25,000	22	5
5	TWIN CITIES	MN0076ZZ	UPGRADE EMS SYSTEMS	$25,000	3	3
5	TWIN CITIES	MN0076ZZ	REPLACE LIGHTING & CEILING SYSTEM	$0	2	4
5	TWIN CITIES	MN0087ZZ	UPGRADE EMS FIRST FLOOR	$25,000	2	7
5	CINCINNATI	OH002BCN	LED EXIT LIGHTS	$0	3	5
5	CINCINNATI	OH002BCN	OPERATOR WORKSTATIONS	$59,000	2	5
5	COLUMBUS	OH0186ZZ	REPLACE CEILING LIGHTING	$74,500	3	5
5	CINCINNATI	OH0189CN	REPLACE EXIT SIGNS W/ LED EXIT LIGHTS	$0	2	7
5	CLEVELAND	OH0192ZZ	LIGHTING FIXTURE REPLACEMENT	$14,400	8	1
5	CLEVELAND	OH0192ZZ	REPLACE GARAGE LIGHTING	$25,000	4	3
5	CLEVELAND	OH0192ZZ	LIGHTING RETROFIT	$0	2	0
5	CLEVELAND	OH0192ZZ	RETROFIT LIGHTING	$0	1	6
5	AKRON	OH0194ZZ	RETROFIT LIGHTING ON 4TH AND 5TH FLOORS	$24,000	4	3
5	AKRON	OH0194ZZ	RETROFIT LIGHTING IN LOBBY, DOCK AND GARAGE	$18,000	20	1
5	AKRON	OH0194ZZ	UPGRADE MAIN HVAC CONTROLS	$54,000	0	0
5	CINCINNATI	OH0195ZZ	EXPAND EXISTING CONTROLS NETWORK	$0	2	3
5	CINCINNATI	OH0195ZZ	VARIABLE FREQUENCY DRIVE	$11,400	2	6
5	COLUMBUS	OH020BCL	RETROFIT LIGHT FIXTURES	$38,000	2	6
5	COLUMBUS	OH020BCL	EMS UPGRADE	$71,658	2	5
5	COLUMBUS	OH020BCL	REPLACE OUTSIDE AIR DAMPERS	$0	3	7
5	CINCINNATI	OH0514DD	NEW TEMPERATURE CONTROLS	$31,600	2	4
5	COLUMBUS	OH0186ZZ	REPLACE SUPPLY FAN MOTOR - FY93 PROJ	$0	0	0
5	COLUMBUS	OH020BCL	REPLACE RAF MOTORS	$0	0	0
5	MILWAUKEE	WI0044ZZ	EMS	$0	1	10
5	MILWAUKEE	WI0044ZZ	LIGHTING RETROFIT	$0	5	2
5	MILWAUKEE	WI0350ZZ	LIGHTING RETROFIT	$0	1	9
5	MILWAUKEE	WI0350ZZ	REPLACE MOTORS	$0	9	2
TOTAL FUNDED:				$4,938,050		
6	IOWA	IA0030ZZ	LIGHTING RETROFIT	$75,700	3	4
6	IOWA	IA0112ZZ	LIGHTING RETROFIT	$593,300	2	8

6	KANSAS CITY	MO0039ZZ	LIGHTING RETROFIT	$584,400	3	4
6	KANSAS CITY	MO0039ZZ	IRS SERV CTR SUPPORT SYSTEM &UNIVERSAL WIRING, CHILLED H2O OPT	$888,126	5	4
6	KANSAS CITY	MO0039ZZ	RETROFIT FIXTURES & SENSORS	$0	1	9
6	KANSAS CITY	MO0127ZZ	COOLING TOWER UPGRADE	$0	2	7
6	KANSAS CITY	MO0132ZZ	LIGHTING RETROFIT	$0	1	7
6	FEDERAL REC	MO0551AG, MO0552AG, MO0553AG	BOILER CONVERSION	$492,489	4	4
6	FEDERAL CEN	MO0601AF	LIGHTING RETROFIT	$36,500	3	4
6	FEDERAL CEN	MO0603AF	LIGHTING RETROFIT	$477,900	2	6
6	FEDERAL CEN	MO0606AF	LIGHTING RETROFIT	$210,800	3	4
TOTAL FUNDED:				$3,359,215		
7	LITTLE ROCK	AR0021ZZ	SPECULAR REFLECTORS AND MISC. ENERGY CONSERVATION	$90,000	2	9
7	LITTLE ROCK	AR0063ZZ	CHANGE ORDER TO FY91 CHILLER PROJECT	$0	0	0
7	SHREVEPORT	LA0002ZZ	SOLAR FILM	$0	0	0
7	NEW ORLEANS	LA0033ZZ	CHANGE ORDER TO FY 91 LIGHTING PROJECT	$0	0	0
7	NEW ORLEANS	LA0085ZZ	NEW LIGHTING FIXTURES	$0	0	0
7	ALBUQUERQUE	NM0024ZZ	INSTALL PARABOLIC LIGHTING	$0	0	0
7	ALBUQUERQUE	NM0038ZZ	REPAIR SOLAR HEATING SYSTEM	$0	0	0
7		NM1338ZZ	ENERGY EFFICIENT LIGHTS	$25,000	0	0
7	OKLAHOMA	OK0041ZZ	SOLAR FILM	$0	0	0
7	OKLAHOMA CI	OK0041ZZ	SPECULAR REFLECTORS AND MISC. ENERGY CONSERVATION	$129,000	2	10
7	OKLAHOMA CI	OK0041ZZ	INSTALL EMCS SYSTEM	$0	0	0
7	OKLAHOMA CI	OK0098CT	CONVERT FLUOR. TO METAL HALIDE	$0	0	0
7	OKLAHOMA	OK1215ZZ	SOLAR FILM	$0	0	0
7	HOUSTON	TX0019ZZ	SPECULAR REFLECTOR AND MISC. ENERGY CONSERVATION	$121,000	5	3
7	DALLAS	TX0058DA	CHANGE ORDER TO FY 91 LIGHTING PROJECT	$0	0	0
7	EL PASO	TX0069ZZ	SPECULAR REFLECTOR AND REPLACE MOTOR	$54,000	4	4
7	FORT WORTH	TX0075ZZ	SPECULAR REFELCTORS	$74,000	5	3
7	FORT WORTH	TX0075ZZ	INSTALL EMCS SYSTEM FROM FY91 PROJECT	$0	0	0
7	HOUSTON	TX0081ZZ	EMCS SYSTEM	$0	0	0

7	MCALLEN	TX0117ZZ	SOLAR FILM	$0	0	0
7	SAN ANTONIO	TX0164MS	SPECULAR RELFECTORS AND MISC. ENERGY CONSERVATION	$134,000	5	3
7	EL PASO	TX0220ZZ	SPECULAR REFLECTORS AND MISC. ENERGY CONSERVATION	$78,000	3	6
7	FORT WORTH	TX0224ZZ	SOLAR FILM	$0	3	4
7	FORT WORTH	TX0224ZZ	CHANGE ORDER TO FY91 LIGHTING PROJECT	$0	0	0
7	FORT WORTH	TX0224ZZ	AFTER HOURS CHILLER INSTALLATION	$64,000	4	4
7	FORT WORTH	TX0224ZZ	EXPAND CHILLER BYPASS HT. EXCHANGER	$0	0	0
7	DALLAS	TX0284DA	AFTER HOURS CHILLER	$95,000	2	8
7	DALLAS	TX0292ZZ	CHANGE ORDERS TO FY91 BOILER PROJECT	$0	0	0
7	HOUSTON	TX0297ZZ	SOLAR FILM	$0	0	0
7	HOUSTON	TX0298ZZ	SPECULAR REFLECTRS AND MISC. ENERGY CONSERVATION	$515,000	2	7
7	HOUSTON	TX0298ZZ	SOLAR FILM	$65,000	9	1
7	DALLAS	TX0302ZZ	SPECULAR REFLECTORS AND MISC. ENERGY CONSERVATION	$365,000	4	4
7	SAN ANTONIO	TX0501MS	MISC. ENERGY CONSERVATION	$78,000	6	2
7	SAN ANTONIO	TX0502MS	SPECULAR REFLECTORS, REPLACE MOTORS	$121,000	3	5
7	FORT WORTH	TX0801FW	SPECULAR REFLECTORS	$80,000	4	3
7	FORT WORTH	TX0803FW	SPECULAR REFLECTORS	$35,000	2	5
TOTAL FUNDED:				$2,123,000		
8	DENVER	CO0006ZZ	EMCS SYSTEM	$0	0	0
8	JEFFCO	CO0016ZZ	EMCS SYSTEM	$0	0	0
8	JEFFCO	CO0018ZZ	EMCS SYSTEM	$0	0	0
8	DENVER	CO0039ZZ	CHANGE ORDER TO FY 91 LIGHTING PROJECT	$0	0	0
8	DENVER	CO0039ZZ	EMCS SYSTEM	$0	0	0
8	JEFFCO	CO0046ZZ	SPECULAR REFELCTORS AND MISC. ENERGY CONSERVATION	$102,000	3	6
8	JEFFCO	CO0052ZZ	EMCS SYSTEM	$0	0	0
8	JEFFCO	CO0052ZZ	PROVIDE ENERGY EFFICIENT LIGHTING	$0	0	0
8	DENVER	CO0054ZZ	SPECULAR REFLECTORS AND MISC. ENERGY CONSERVATION	$333,000	3	6

8	DENVER	CO0054ZZ	EMCS SYSTEM	$0	0	0
8	DENVER FEDE	CO0511AA	SPECULAR REFLECTORS AND MISC. ENERGY CONSERVATION	$370,000	3	6
8	DENVER FEDE	CO0516AA	SPECULAR REFLECTORS AND MISC. ENERGY CONSERVATION	$449,000	3	6
8	DENVER FEDE	CO0527AA	SPECULAR REFLECTORS AND MISC. ENERGY CONSERVATION	$140,000	3	6
8	DENVER FEDE	CO0530AA	SPECULAR REFLECTORS AND MISC. ENERGY CONSERVATION	$495,000	3	6
8	DENVER FEDE	CO0576AA	SPECULAR REFLECTORS AND MISC. ENERGY CONSERVATION	$43,000	2	7
8	DENVER FEDE	CO0627AA	CHANGE ORDER 10 FY91 LIGHTING PROJECT	$0	0	0
8	MONTANA	MT0017ZZ	SPECULAR REFLECTORS	$58,000	2	10
8	MONTANA	MT526BZZ	EMCS UPGRADE	$0	0	0
8	NORTH DAKOT	ND0045ZZ	INSULATE ROOF	$0	0	0
8	SALT LAKE C	UT0035ZZ	SPECULAR REFLECTORS AND MISC. ENERGY CONSERVATION	$175,000	3	6
8	WYOMING	WY0029ZZ	METAL HALIDE AND MISC. ENERGY CONSERVATION	$65,000	2	8
8	WYOMING	WY0030ZZ	SPECULAR REFLECTORS AND MISC. ENERGY CONSERVATION	$66,000	1	10
TOTAL FUNDED:				$2,296,000		
9	9PH-27	AZ0015ZZ	RETROFIT FLUORESCENT FIXTURES	$45,000	4	4
9	9PH-26	AZ0052ZZ	LIGHTING RETROFIT PROJECT	$350,000	3	5
9	9PH-27	AZ0058ZZ	LIGHTING RETROFIT	$230,000	3	4
9	9PH-27	AZ0670AA	REPLACE EXISTING FLUORESCENT AND INCANDESCENT FIXTURES	$20,000	4	3
9	9PX-M8	CA0041ZZ	REPLACE MOTORS	$50,000	4	3
9	9PX-M8	CA0041ZZ	LIGHTING RETROFIT	$200,000	2	9
9	9PXM-8	CA0041ZZ	EMCS NETWORK	$0	0	0
9	9PH-23	CA0083ZZ	HVAC, LTG & VFD PROJECT	$210,000	14	1
9	9PH-25	CA0091ZZ	INSTALL ELEVATOR GENERATOR TIMES	$12,000	4	3
9	9PH-25	CA0091ZZ	ALTERNATE GENERATOR	$45,000	4	5
9	SANSOME	CA0091ZZ	LIGHTING RETROFIT (CHANGE ORDER FY91)	$0	0	0
9	EAST BAY	CA0092ZZ	LIGHTING PROJECT (FY91 CHANGE ORDER)	$0	0	0
9	9PH-24	CA0129ZZ	LIGHTING RETROFIT	$13,000	4	1

9	9PX-1M1	CA015022	LIGHTING RETROFIT	$60,000	4	3
9	SACRAMENTO	CA015222	VARIABLE FREQUENCY MOTOR DRIVE - CHILLER	$40,000	5	3
9	9PM-21	CA015422	REPLACE FLEX DUCT	$0	16	1
9	9PM-21	CA015422	MECHANICAL LIGHTING	$0	3	3
9	9PM-21	CA015422	LIGHTING RETROFIT	$41,000	3	4
9	9PX-1M2	CA016722	LIGHTING RETROFIT	$899,200	4	3
9	9PM-23	CA018422	LIGHTING RETROFIT	$13,126	6	5
9	9PX-1M6	CA019822	LIGHTING RETROFIT	$483,000	4	4
9		CA019922	LIGHTING RETROFIT	$750,000	0	0
9	9PX-1M7	CA020022	LIGHTING RETROFIT	$344,329	3	5
9	9PXM-7	CA020022	VESTIBULE	$0	2	6
9		CA021322	EMS PROJECT	$364,648	0	0
9		CA022122	LIGHTING RETROFIT PROJECT (FY91 CHANGE ORDER)	$0	0	0
9	9PM-24	CA028122	LIGHTING RETROFIT	$500,000	4	1
9	9PX-1M7	CA052155	RETROFIT APPROX. 15,157 FLUORESCENT FIXTURES	$800,300	4	3
9	9PXM-7	CA052155	VESTIBULE	$0	2	6
9	9PXM-7	CA052155	MOTION SENSORS	$0	4	2
9	9PX-M7	CA052322	INSTALL 800 TON HEAT EXCHANGER IN THE ENERGY BUILDING	$100,000	4	3
9	9PXM-2	CA058866	MOTION SENSORS	$0	2	4
9	9PM-24	CA076144	RETROFIT LIGHTING FIXTURES	$102,000	4	1
9		CA090100	LIGHTING PROJECT	$0	0	0
9	9PM-22	H1D01122	LIGHTING RETROFIT	$80,820	4	3
9	9PM-22	H1D01122	OZONE WATER TREATMENT	$70,000	6	2
9	9PM-22	H1D01122	REPLACE SOLAR FILM	$80,000	7	1
TOTAL FUNDED:				$5,903,423		
NATIONAL TOTAL:				$36,572,246		

FY92

Question. Why can't this work be done as part of the specific amounts requested for individual repair and alteration projects without having a specific set-aside?

Answer. Essentially, conservation projects are part of the Repairs and Alterations program being that they share the same funding source. In the normal process of performing basic repairs and major building modernizations, GSA does install energy efficient building systems. However, these efforts alone will not maximize energy efficiency and achieve the Federal Government's conservation goals. The specific set-aside is to support projects undertaken solely on their energy savings potential.

Question. Why aren't the savings from energy conservation rebates sufficient for these types of projects?

Answer. Cumulatively, GSA has spent approximately $100 million in energy project funding from 1990 through 1993. To date, GSA has identified about $7 million in rebates. Upon receipt, these rebates are deposited into the Federal Buildings Fund where they are reinvested into further energy conservation opportunities. Unfortunately, the total amount of rebates available to GSA is modest. This is due to the small number of participating utilities and, in these cases, rebates usually equal only 10 to 30 percent of the total project cost.

PHILADELPHIA, PENNSYLVANIA FEDERAL OFFICE BUILDING

Question. In fiscal year 1993, GSA was authorized to enter into an interagency agreement with the Postal Service to construct a Federal office building in Philadelphia, Pennsylvania. This language in essence permitted GSA to enter into an operating lease with the Postal Service for Federal office space to be constructed by the Postal Service. I now understand that the Postal Service has decided not to move forward on this project. Can you give us an update on this project and tell us what you know of the Postal Service decision?

Answer. Although it appears that the Postal Service is not proceeding with this project, GSA has received no official notice stating that the Postal Service does not intend to do so.

Question. What impact will this have on Philadelphia Federal office space requirements?

Answer. The Philadelphia Federal office space requirements should not change if the Postal Service does not go forward with this project. However, if this occurs, GSA will have to re-examine the housing options

for the affected agencies in Philadelphia to determine the most cost-effective method of housing them.

NAVY PROJECT

Question. The President's fiscal year 1994 budget includes a rescission of $185 million for the Naval Command Systems project in Crystal City. In addition, GSA has submitted a reprogramming to the Committee recommending that an additional $25 million be moved from this project into other Federal building projects. If the Committee approves both the reprogramming and the fiscal year 1994 rescission, how much will remain available for this project?

Answer. Funding of $240 million was appropriated by Public Law 101-509 for the Naval Systems Command. Of that amount, $17 million was reprogrammed in fiscal year 1993 to the Allentown, PA project, and we are waiting for approval by the Committee of a reprogramming of $9,073 thousand to cover the National Science Foundation move, leaving a balance of $213,927 thousand. If the President's fiscal year 1994 budget proposal for a rescission of $185,344 thousand and the Committee's recommended reprogramming of $25 million are enacted, $3,583 thousand will remain.

Question. Do you have any plans to move forward on new facilities for the Naval Command Systems?

Answer. No, GSA is awaiting a housing decision from DOD.

INTERNATIONAL CULTURAL AND TRADE CENTER

Question. Statement of managers language accompanying the fiscal year 1994 Treasury Appropriations Act directed GSA to submit a housing plan for the proposed Federal Triangle building by March 3, 1993. The Committee has not yet received this report. Can you tell us the status of this report and explain why it has not been submitted to the Committee as directed?

Answer. On March 1, 1993, GSA advised Congress that a review of a recently proposed housing plan was underway. This plan includes the Agency for International Development (AID) and the Customs Service as primary tenants of the facility.

The Acting Assistant Secretary for Management at the Department of the Treasury sent a letter to the Acting Administrator of GSA endorsing the proposed occupancy of Customs in the Federal Triangle Building. AID sent a letter to the White House requesting occupancy in the new facility.

As a result of meetings held during the week of May 3, 1993, with OMB, AID, EPA, Customs, and Congressional staff, GSA agreed to undertake an economic analysis of alternative housing plans that would meet the long-term needs of EPA, Customs, and AID. The housing status of all Federal international and trade-related agencies was reviewed. Prospective tenant agencies were informed of this process.

Question. What are the current housing plans for the Federal Triangle, I understand that you are now considering moving AID and Customs into this facility instead of EPA?

Answer. Based on the analysis, two housing plans were developed. The first includes the Agency for International Development (AID) and the Customs Service as primary tenants of the facility, and the second includes EPA as the sole primary tenant. The final decision awaits a discussion with OMB Director, Leon Panetta.

EPA HEADQUARTERS/LEASE PURCHASE

Question. In fiscal year 1990, the Committee included a general provision in the Appropriations Act authorizing GSA to enter into a lease to ownership agreement, for the lease purchase of a building not to exceed 1,400,000 occupiable square feet for the headquarters of the Environmental Protection Agency on a site to be located in the District of Columbia. To my knowledge, that authorization has never been acted upon. If EPA does not move to the Federal Triangle, does GSA plan to use the lease purchase language in Public Law 101-136 to acquire a headquarters for EPA? If not, why not?

Answer. If EPA's housing needs are not accommodated in the Federal Triangle Building, GSA would consider using the lease purchase authority contained within Public Law 101-136 to obtain a headquarters facility. A final decision on the use of the lease purchase authority would depend on the economics of lease purchase versus other alternatives and the scoring impact of the alternatives. Preliminary discussions with the Office of Management and Budget indicate that this transaction would be scored for both budget authority and outlays. Exactly when and how this transaction would be scored has not been determined.

U.S. SECRET SERVICE CONSOLIDATED HEADQUARTERS

Question. Last year Congress appropriated $150,569,000 for the purchase or construction of a building for a consolidated Secret Service Headquarters. The previous Administrator stated during last years hearings that he hoped to have a site acquired within the year. It is my understanding GSA has not acquired

the site or building and that you have run into some problem areas.

I am concerned that this project might get bogged down by inaction. It is my understanding that the Secret Service lease on its current headquarters expires in May 1995. At that time they must either move or continue to pay rent at a potentially higher than current lease rate. I am also concerned because I have heard that you intend to suspend all new construction or major alteration projects until you have had a chance to review the current projects and procedures. I understand that you testified before the Senate Environment and Public Works Committee just last week that this could take between 3 to 6 months. This amount of time, on top of the already past 8 months, just seems too long. We are going to end up spending a lot of the taxpayers money on unnecessary rent if we don't start this project moving. What are GSA plans if the Secret Service cannot move out by 1995 and what additional cost will be incurred by the Government?

Answer. Typically we would negotiate a short-term lease extension. It is likely that this lease will be at a rental rate consistent with the existing real estate market, since lessors understand that GSA is not prepared to move out of their space. The additional cost incurred by GSA will depend on the period of the extension and the rental rate paid for the extension. If the leases are extended to 1996/97 the annual cost is anticipated to be approximately $9,000,000 per year.

STATUS OF GRANTS

Question. For the record, can you provide a complete listing of all grants provided to GSA for various projects and give us a status on the obligation of funds?

Answer. Yes. Attached is a listing of the grant projects and the status on the obligation of funds.

[The information follows:]

GENERAL SERVICES ADMINISTRATION
GRANTS
(as of June 30, 1993)

(Dollars)

Grant Recipient	Project	Amount Appropriated	Amount Obligated 1/
FY 1988:			
California State University at East Los Angeles Los Angeles, CA	Renovation of an existing University facility to establish the Edward R. Roybal Center for Applied Gerontology	800,000	791,531
County of Los Angeles Los Angeles, CA	Construction/renovation of an existing health facility to establish the Roybal Senior Health Center	1,000,000	989,531
Marine Biological Laboratory Woods Hole, MA	Preconstruction design/development of the Marine Biomedical Institute for Advanced Studies	2,200,000	2,200,000
University of New Mexico Albuquerque, NM	Renovation/expansion of the University's General Library to establish a Center for Southwest Research	5,000,000	4,945,000
Subtotal FY 1989		9,000,000	8,926,062
FY 1990:			
County of Los Angeles	Construction of a parking facility in Long Beach, CA, for which 250 parking spaces are to be provided to GSA without cost for a period of 99 years	3,000,000	2,967,819
Iowa State University Ames, IA	Support of facilities and equipment upgrades for a Midwest Supercomputer Access Center	5,000,000	4,945,000

Grant Recipient	Project	Amount Appropriated	Amount Obligated 1/
Christopher Columbus Center Development, Inc. Baltimore, MD	Preconstruction design/planning of the international Christopher Columbus Center for Marine Research and Exploration	1,500,000	1,483,555
Smith College Northampton, MA	Renovation/expansion of the University's Clark Science Center	1,500,000	1,498,446
FY 1990:			
Marine Biological Laboratory Woods Hole, MA	Construction of the Marine Biomedical Institute of Advanced Studies	2,000,000	1,978,947
University of Nebraska Medical Center Omaha, NE	Expansion of research space to the University's Eppley Institute for Research in Cancer and Allied Diseases	5,000,000	4,945,000
New Mexico State University Las Cruces, NM	Site and facilities for the University's Primate Research Institute, to be constructed on a site leased from the U.S. Air Force at Holloman Air Force Base	5,000,000	4,946,177
City of Astoria Astoria, OR	Reconstruction of the First U.S. Custom House West of the Rocky Mountains	90,000	89,010
University of Maryland College Park, MD	Construction of the University's Center for Strategic Man-Made Materials	1,481,000	1,464,709
Michigan Technological University Houghton, MI	Construction of the University's Center for Applied Metallurgical, Minerals and Materials Research	4,936,000	4,881,704
Rochester Institute of Technology Rochester, NY	Preconstruction design/planning of the Institute's Center for Integrated Manufacturing Studies	1,481,000	1,464,709

Grant Recipient	Project	Amount Appropriated	Amount Obligated 1/
University of Texas at El Paso El Paso, TX	Complete construction of facilities associated with the University's Institute for Manufacturing and Materials Management and support materials management/technology transfer projects	4,099,000	4,053,911
Subtotal FY 1990		35,087,000	34,718,987
FY 1991			
Northern Arizona University Flagstaff, AZ	Construction of the University wing of the Southwest Forestry Science Complex	4,500,000	4,450,000
California State University Los Angeles, CA	Renovation of an existing University facility to establish the Edward R. Roybal Center for Applied Gerontology	350,000	346,150
Japanese American National Museum Los Angeles, CA	Asbestos abatement in the Museum	39,000	39,000
Marymount Loyola University Los Angeles, CA	Planning, design and construction of the University's Center for International Business Studies	4,000,000	3,956,000
Children's Hospial San Diego, CA	Preconstruction design/planning of Hospital facilities	1,750,000	1,730,750
National Jewish Center for Immunology and Respiratory Medicine Denver, CO	Architectural and engineering support for the National Research Center for Environmental Lung Disease	1,000,000	989,000

Grant Recipient	Project	Amount Appropriated	Amount Obligated 1/
American Indian Higher Education Consortium Washington, DC	Repairs and renovations to various facilities of the member colleges of the Consortium	1,908,000	1,887,012
D.C. Children's National Medical Center Washington, DC	Expansion to the Center's National Child Protection and Trauma Research Center	1,750,000	1,730,750
Mount Sinai Medical Center Miami, FL	Construction of a state-of-the-art operating room tower and other medical facilities for the care of the elderly	1,750,000	1,730,750
University of Georgia Athens, GA	Construction of the University's Dean Rusk Law Center	1,000,000	989,000
Iowa State University Ames, IA	Continue computer network linkup capability currently being developed at the University	2,200,000	2,175,800
Pittsburg State University Pittsburg, KS	Construction of the University's School of Technology Complex	5,000,000	4,946,579
Christopher Columbus Center Development, Inc. Baltimore, MD	Preconstruction design/planning of the international Christopher Columbus Center for Marine Research and Exploration	4,000,000	3,956,000
University of Maryland College Park, MD	Construction of the University's Center for Strategic Man-Made Materials	1,375,000	1,359,875
Brandeis University Waltham, MA	Construction of the University's National Center for Complex Systems	4,000,000	3,956,947
Marine Biological Laboratory Woods Hole, MA	Construction of Marine Biomedical Institute of Advanced Studies	4,750,000	4,697,750

Grant Recipient	Project	Amount Appropriated	Amount Obligated 1/
Michigan Technological University Houghton, MI	Construction of the University's Center for Applied Metallurgical, Minerals and Materials Research	1,750,000	1,733,288
McLaughlin Research Institute Great Falls, MT	Construction of laboratory and support facilities for biogenetic research of such diseases as AIDS and Alzheimers Disease	5,000,000	4,945,000
University of Nebraska Lincoln, NE	Construction of the University's George Beadle Center for Genetic and Biomaterials Research	4,500,000	4,450,500
Creighton University Omaha, NE	Renovation/expansion of the University's Criss Research Building which currently accommodates a number of biomedical research projects	2,000,000	1,978,000
New Mexico State University Alamogordo, NM	Site and facilities for the University's Primate Research Institute to be constructed on a site leased from the U.S. Air Force at Holloman Air Force Base	4,000,000	3,956,000
Sandia National Laboratory Albuquerque, NM	Support the Laboratory's efforts to identify and facilitate the introduction of materials, methods, and processes that lead to environmentally benign manufacturing	3,000,000	2,967,000
Columbia University New York, NY	Support the development of the University's Center for Disease Prevention	1,000,000	989,000

Grant Recipient	Project	Amount Appropriated	Amount Obligated 1/
Rochester Institute of Technology Rochester, NY	Construction of the Institute's Center for Integrated Manufacturing Studies	1,750,000	1,730,750
Philadelphia Urban League Philadelphia, PA	Administration of a community-based drug prevention program	778,000	769,442
Texas A&M University College Station, TX	Establishment of the Institute of National Drug Abatement Research	1,000,000	989,000
University of Texas El Paso, TX	Construction of facilities associated with the University's Institute for Manufacturing and Materials Management and support of materials management/ technology transfer projects	1,750,000	1,732,329
Subtotal FY 1991		65,900,000	65,181,672
TOTAL GRANTS		109,987,000	108,826,721
Transferred to Defense Logistic Agency: 2/			
University of Hawaii Manoa, HI	Construction and procurement of equipment for the University's Pacific Ocean and Science Technology Facility	987,000	987,000
University of Idaho Moscow, ID	Construction of the University's Environmental Laboratory	5,800,000	5,800,000

1/ Variance between appropriated and obligated amounts are due to a 1.1 percent reserve which is applied against expenses required for GSA's administration of the grants. Once the administrative requirements have been accomplished, any balance remaining may be made available to the grantee.

2/ Administration and funding for grants was transferred to the Defense Logistic Agency's Defense National Stockpile Center (DLA/DNSC) since DLA/DNSC had existing grants for these same projects. GSA considers the grants funds obligated.

Question. Are there any projects for which no funds have been obligated to date and if so, can you identify those projects and explain why no funds have been obligated?

Answer. No. Funds have been obligated for all grant projects.

BORDER STATIONS

Question. As you know, I am concerned about the ability of the southwest border to handle increased commercial and vehicular traffic, particularly over the next 10 to 20 years if NAFTA is ratified.

Due to my concern for long range planning along the border I have included report language in the Fiscal Year 1993 Supplemental Appropriations bill which directs GSA to incorporate a Department of Transportation study and other state, local and private studies into a 5-year plan that was developed for this subcommittee. It is my hope that GSA will be able to look long range to develop a strategy for the southwest border with NAFTA in mind.

Do you think that GSA can accurately assess the needs of the border beyond the possible ratification of the NAFTA? If a model is possible can a long range plan be developed? If not, could GSA lay out the difficulties in assessing the needs long range?

Answer. GSA has provided to Congress a 5-year plan for the Southwest border for fiscal years 1994 - 1998 in response to Senate Appropriation Committee language. In the preparation of this report, the border inspection agencies took a hard look at their long range requirements while considering the full impact of NAFTA. To look beyond fiscal year 1998 and the ratification of NAFTA, which is to be phased in over a period of ten years or more, is not feasible due to potentially changing circumstances and the degree of uncertainty in trying to predict the future.

Assessing long range needs is difficult for many reasons. For example, new procedures and technology, changing patterns of commerce and trade (possibility of more goods travelling by rail and sea), the diversion of traffic in Mexico, and infrastructure development of Federal, State and local governments in the U.S. and Mexico are subject to change and will significantly impact the future facility needs of the border inspection agencies.

Question. In GSA's opinion what are the significant differences between the northern and southern border as it relates to trade and the ratification of the NAFTA?

Answer. There are many differences between the northern and southern border of the U.S. In general, it is hard to compare the two borders due to political, economic, linguistic, environmental, social and geographical concerns.

However, one major difference that impacts the flow of legal goods is that Mexico is a source country for drugs while Canada is not. Accordingly, the mission of the U.S. Customs Service on the southern border is focused mainly on drug interdiction. This requires a high level of inspection of goods crossing the border into the U.S. On the norther border, the Customs Service plays a more traditional role of commodity inspection for the purpose of collecting revenue. This does not require the same level of inspection intensity as on the southern border.

Another major difference is the discrepancy in the standard of living between Mexico, the U.S. and Canada. The U.S. and Canada have a first world economy while the Mexican economy is considered to be a third (albeit advanced) world economy. With labor costing less in Mexico, many U.S. companies have established factories in Mexico along the border through the "maquiladora" program. With the implementation of NAFTA, it is hard to speculate whether many of these companies will chose to relocate their operations further into Mexico for cheaper labor and for the purpose of selling their products to a large Mexican market as opposed to just exporting Mexican assembled goods across the border.

Border transportation infrastructure is also significantly different in Mexico and Canada. While Canada has a good road network, Mexico is still in the process of developing theirs. Currently, the lack of Mexican access roads to the border limits commercial trade.

Another significant difference is that the Mexican population is much larger than the Canadian population. Accordingly, there are a number of communities in Mexico that are highly developed hard against the border. Lastly, the language difference between Mexico and the U.S. is more pronounced than between Canada and the U.S. While most French Canadians recognize that English is the official language of the U.S. border, many Mexicans do not speak English and must rely on U.S. personnel who are bilingual. The language barrier along the Mexican border is harder to overcome than on the northern border.

Question. In addition, for fiscal year 1994, I note that you are requesting funding for 2 northern border stations: $96,000 for Pembina, North Dakota, and $6,851,000 for Highgate Springs, Vermont. However, no funding has been requested for the southwest border although future expansions have been requested by the

Federal Inspection Services. What is the rationale for not requesting any funding for the southwest border in fiscal year 1994?

Answer. The border inspection agencies every year provide to GSA a list of their top-ten requirements. This list is used as the basis for developing capital improvement projects along the border. For the past two years, the border inspection agencies top-ten list has contained only one southern station, Fabens, Texas. This project is not ready for funding and is still in the process of being developed. With the exception of Fabens, the border inspection agencies position for the past couple of years via the top-ten list, is, no further funding is required along the southern border beyond what has already been appropriated through the Southwest Border Station Capital Improvement Program (SWBSCIP).

Question. It is my understanding from the 5-year plan that several expansion projects have been approved, however, there are no new crossings planned for the southwest border through 1998. Is that correct?

Answer. In the 5-year plan, the border inspection agencies have identified a preliminary list of projects. None of the projects requested by the border inspection agencies included a new crossing.

Question. Does GSA anticipate that this will change and that proposed crossings might be approved?

Answer. In planning for very specialized facilities such as border stations, GSA must rely on the workload and facility requirements projections of our client agencies. The border inspection agencies have taken a hard look at their long range requirements and did not request any new crossings. Due to staffing limitations and the capacity that will exist after the current border improvement program is completed, it is difficult to determine whether the border inspection agencies will revise their needs for the purpose of including a new station. However, through the top-ten list, the border inspection agencies do have the opportunity on an annual basis to add new southern stations.

Question. In GSA's opinion are the Federal inspection agencies asking for enough? Do you think that they may be requesting less expansion or upgrades due to a fear of the increased costs of staff and equipment?

Answer. While staffing, equipment and rent are of significant concern to the border inspection agencies, it has not kept them from requesting a major expansion of space along the southern border through the current program. For example, when the Southwest Border Station

Capital Improvement Program (SWBSCIP) is completed, an additional 772 truck docks will have been built along the southwest border. According to a GSA/Customs model, these additional 772 docks can process 8.4 million trucks annually. In fiscal year 1992, Customs processed 2.3 million northbound trucks. Where possible, GSA has constructed many new stations with future expansion capability. These new stations are located on 70-80 acre sites and if ever required, another 990 truck docks can be constructed for a total of 1,890 truck docks.

To date, GSA has completed 35 of the 53 line item projects in the SWBSCIP. In 1992, the new Los Indios border station outside Brownsville, Texas, opened. A new station at St. Teresa, New Mexico, opened in early 1993 and GSA currently has completed design of the new Calexico, California, station. Two more new stations, Los Tomates in Brownsville, Texas, and Pharr, Texas, are currently under design. Commercial expansion at Otay Mesa, California, and Douglas, Arizona, and non-commercial expansion at Nogales, Arizona, are currently under construction. Full funding for all these projects has been appropriated.

The shift in inspection agency concerns is in the north. Through the top-ten process, the border inspection agencies have requested a significant expansion of space along the northern border from Skagway, Alaska, to Madawaska, Maine.

NOGALES, ARIZONA

Question. In Arizona, Nogales will likely face a significant increase in traffic if the NAFTA is ratified. In addition, Nogales has some very unique problems which will need to be addressed should additional crossings ever be considered. I realize that GSA has already reported to the Subcommittee extensively on this issue and I greatly appreciate that, however, for the record I would like to pose several questions.

Is it GSA's opinion that the Southern Pacific Railroad would need to be moved before a new crossing is considered? If so, why? What would need to be done to move the railroad?

Answer. In our report to Congress, GSA recognized the local community and the border inspection agencies' desire to have the railroad relocated out of downtown Nogales. However, GSA's authority is limited to the construction of the actual border inspection facilities in the U.S. and does not extend to rail crossings or other border station sites. Accordingly, it would not be appropriate for GSA to recommend the establishment of a third crossing based solely on the need to relocate the railroad.

In the Nogales report, the border inspection agencies did not request a third crossing in Nogales. However, in the future, if the agencies did request a third crossing, the development of this project would not necessarily be dependent upon the railroad being relocated unless the border inspection agencies expressly stated it as a condition.

The railroad in Nogales is privately owned by the Southern Pacific Transportation Company (SP) and it would be the responsibility of the owner of the rail line to relocate the track. Because the cost to relocate the track might be prohibitive (approximately $3 million per mile by SP's estimate), the economic viability of the project is questionable. If SP were to propose relocation, the issue would require the cooperation of Ferrocarriles Nacionales de Mexico. An international agreement of this kind would also require the involvement of the State Department. The sponsors of the proposed railroad relocation would also have to comply with applicable environmental laws as well.

Question. Is it GSA's opinion that extensive environmental impact studies would need to be done before a new crossing is considered?

Answer. Yes. The National Environmental Policy Action (NEPA), as amended, requires the U.S. Federal Government to conduct a comprehensive environmental assessment of any major project such as a new border station. The NEPA process must be completed before a site is acquired and construction begins. The results of the environmental assessment may affect GSA's decision to proceed, modify or cancel the project.

Question. Along the same line of questioning wouldn't Nogales' sewage problem need to be addressed? And air quality?

Answer. Yes. The environmental process would include an assessment of the impact of a third crossing on Nogales' sewage and air quality as well as many other factors such as transportation and water.

Nogales is located in the Santa Cruz River Valley which is an extremely sensitive area environmentally. Portions of the valley are located within the 100- and 500- year floodplain, as defined by FEMA. A third crossing may affect the flow and water quality of the Santa Cruz, and the drinking water supply of Nogales. It is only through extensive technical studies and full Environmental Impact Statement that the potential impacts of a new crossing in this environmentally sensitive area can be properly assessed.

Question. Assuming all these issues would need to be addressed, how long would it be before we could

consider a new crossing if it were determined that Nogales needed one?

Answer. GSA would expect any Nogales request to be on the top-ten list. Once a project has been fully developed and funded, normally it takes one year to design and two years to build.

PRESIDENTIAL TRANSITION

QUESTION: In fiscal year 1993 the Congress provided $5 million for Presidential transition expenses. Of this amount, $3.5 million was allocated for the incoming Administration and $1.5 million allocated to the outgoing Administration. Can you give the Committee a report on the status of expenditures from this appropriation? Do any unobligated balances remain, if so, how much?

ANSWER: The total expenditures as of June 21, 1993, for both the incoming and the outgoing Administrations', are $4,445,000. ($3,463,000-incoming; $982,000-outgoing). However, a projection of total obligations through the end of the transition period equates to $4,648,000. The projection includes postage and minor costs related to correspondence, and anticipated travel related expenses. The unobligated balance as of June 21, 1993 for the transition account is $555,000. However, based on the projected transition-end cumulative obligations, the projected unobligated balance will be approximately $352,000.

Status of Funds
Presidential Transition Account

(Dollars in thousands as of June 21, 1993)

	Availablity	Cumulative Obligations 6/21/93	Unobligated Balance 6/21/93	Total Obligations Projection	Estimated Transition-end Unobligated Balance
Clinton/Gore	3,500	3,463	37	3,500	0 1/
Bush	1,250	744	506	898	352
Quayle	250	238	12	250	0
Total	5,000	4,445	555	4,648	352

1/ Although operations have ended, the Transition Office may still request reinbursement for additional Transition-related expenses that will bring the unobligated balance close to zero.

INFORMATION SECURITY OVERSIGHT OFFICE (ISOO)

Question. Please describe for the Committee the various security review panels which have been commissioned in the last few months. How do they differ and what role will the GSA and ISOO have in developing recommendations?

Answer. The Information Security Oversight Office (ISOO) is aware of two security review panels that have begun their work in the last few months: (a) the interagency task force (the "task force") established by Presidential Review Directive 29 on April 26, 1993; and (b) the Joint Security Commission (the "Commission") established by the Director of Central Intelligence (DCI) and the Secretary of Defense, and announced by the Vice President on May 26, 1993. ISOO is also participating in the development of the National Industrial Security Program (the "NISP"), which was established by Executive Order 12829, published January 8, 1993.

The Presidential Review Directive requires the task force to draft a proposed executive order to replace Executive Order 12356, "National Security Information." Further, the ISOO Director, as chairman of the task force, is to submit the task force's report containing the draft order to the National Security Council no later than November 30, 1993. The task force is composed of representatives of those agencies that are heavily involved in the classification, safeguarding and declassification of national security information. The broad objective is the drafting of "a new executive order that reflects the need to classify and safeguard national security information in the post Cold War period." The draft is a specific product which, if issued by the President as an executive order, would apply to all agencies of the executive branch. The specific product is limited to the parameters of a system for classifying, safeguarding and declassifying Government owned or controlled information as national security information. As noted above, the ISOO Director is chairing the task force and is responsible for its ultimate product to be presented to the National Security Council. No other components of GSA are involved in the task force.

The Commission has been chartered to "conduct a comprehensive review of the security practices and procedures under the authorities of the DCI and the Secretary and shall present its recommendations and implementing actions to improve such security practices and procedures" by February 1, 1994. Further, "from

February 1 to June 1, 1994, the Commission shall monitor implementation of decisions by the DCI and the Secretary made pursuant to its recommendations." The Commission members are not Government employees, but the staff of the Commission is composed of employees detailed from intelligence community agencies and the Department of Defense. The Commission will make recommendations to the DCI and Secretary of Defense on a broad array of security disciplines, including information security, personnel security, physical security, information systems security, industrial security, technical security, and international security. Its mission includes recommendations concerning both classified and unclassified information and systems. Neither ISOO nor any other GSA component is directly involved in making the Commission's recommendations. However, the Commission will be provided copies of the work of the task force, and, assuming the President has not issued a new executive order by February 1, 1994, may choose to incorporate or endorse all or some of the task force's product in its recommendations to the DCI and Secretary of Defense on information security.

The NISP is intended to serve as a single, integrated system for the safeguarding of classified information in the custody of Government contractors, licensees or grantees. The steering committee on the NISP, co-chaired by a representative of the Secretary of Defense and a representative of industry, is currently developing a NISP operating manual. The Secretary of Defense is responsible for the issuance of this manual. Approximately six months after the operating manual is issued, the NISP will replace existing industrial security systems for all new contracts, licenses or grants that involve the transfer of classified information to industry. The Director of ISOO sits on the NISP steering committee. Further, when implemented, ISOO will be responsible to the President through the National Security Council for policy oversight of the NISP. The ISOO Director will also chair the NISP Policy Advisory Committee. The GSA Committee Management Secretariat is assisting ISOO in the establishment of the Policy Advisory Committee in accordance with the Federal Advisory Committee Act.

Question. How will the various security review panels coordinate their respective recommendations? Provide for the record a membership list for each of the security review commissions.

Answer. The drafts developed by the task force will be shared with the Commission and its staff. Assuming the President has not issued a new executive

order on national security information by February 1, 1994, the Commission may choose to incorporate or endorse all or some of the task force's product in its recommendations to the DCI and Secretary of Defense on the subject information security. Further, several members of the Commission's staff are serving as observers to the work of the task force. Also, the Director of ISOO, as chairman of the task force, will be testifying before the Commission.

As requested, we enclose a list of agency representatives to the task force (Attachment #A, Pages 1 through 7), and a list of the members of the Commission (Attachment #B, Pages 1 and 2).

[The information follows:]

Attachment A, Page 1

PRD TASK FORCE

Task Force Chair: Information Security Oversight Office (ISOO)
Steven Garfinkel

COMMITTEE ON CLASSIFICATION STANDARDS

Committee Membership

Chair:	Office of the Secretary of Defense David E. Whitman
Deputy Chair:	Information Security Oversight Office Ethel R. Theis
Members:	Department of the Air Force William Davidson
	Office of Management and Budget Arnold Donahue
	Community Counterintelligence and Security Countermeasures Office George P. Grau
Observer:	Joint Security Commission Edmund Cohen

COMMITTEE ON EXCESSIVE CLASSIFICATION

Committee Membership

Chair:	Department of Energy George L. McFadden
Deputy Chair:	Information Security Oversight Office Rudolph H. Waddy
Members:	Defense Intelligence Agency Margaret I. Obert
	Department of the Treasury Richard Riley
Observer:	Joint Security Commission Edmund Cohen

COMMITTEE ON OVERSIGHT

Committee Membership

Chair:	Department of Justice Gerald A. Schroeder
Deputy Chair:	Information Security Oversight Office Laura L.S. Kimberly
Members:	Department of Defense Security Institute Joseph A. Grau
	Department of Transportation John Kerns
Observer:	Joint Security Commission Rene Davis-Harding
	Department of the Air Force Eugene Boesch
	Department of the Navy Captain DeWispelaere

COMMITTEE ON SAFEGUARDS

Committee Membership

Chair:	National Security Agency Linda Miller
Deputy Chair:	Information Security Oversight Office Philip A. Calabrese
Members:	Defense Investigation Service Anthony Stolz
	United States Coast Guard Ronald Seidman
Observer:	Joint Security Commission Edmund Cohen

COMMITTEE ON DURATION

Committee Membership

Chair:	Deputy of State John Hancock
Deputy Chair:	Information Security Oversight Office Glen R. Schlarman
Members:	Federal Emergency Management Agency John Lilley
	Department of the Navy Raymond Schmidt
	Nuclear Regulatory Commission Lynn Silvious
Observer:	Joint Security Commission Edmund Cohen

COMMITTEE ON DECLASSIFICATION

Committee Membership

Chair:	National Archives and Records Administration Michael J. Kurtz
Deputy Chair:	Information Security Oversight Office Emily R. Hickey
Members:	Department of Commerce David N. Schmick
	Federal Bureau of Investigation T.Van Magers
Observer:	Joint Security Commission Edmund Cohen
	Department of the Navy Raymond Schmidt
	Office of Management and Budget Maya A. Bernstein

COMMITTEE ON ACCESS AND DISSEMINATION

Committee Membership

Chair:	Central Intelligence Agency Kenneth Renshaw
Deputy Chair:	Information Security Oversight Office Michael L. Jewell
Members:	Department of the Army Helen Bragg
	Office of Personnel Management Teresa Buckoski

Observer: Joint Security Commission
Edmund Cohen

Department of the Navy
Raymond Schmidt

Office of Management and Budget
Maya A. Bernstein

JOINT SECURITY COMMISSION

Commissioners

Jeffrey Smith - is a partner in the law firm of Arnold and Porter who served as Chief of the Clinton Transition Team at the Department of Defense. He is a former General Counsel of the Senate Armed Services Committee and was Senator Nunn's designee on the Iran/Contra Committee and the Senate Select Committee on Intelligence. Mr. Smith previously served as the Assistant Legal Adviser for Law Enforcement and Intelligence in the Department of State and earlier, as an Army JAG officer, as the Pentagon's lawyer for the Panama Canal negotiations.

Duane Andrews - is senior vice president for C4 and Information Systems, Science Applications International Corporation. Mr. Andrews has held positions as the Assistant Secretary of Defense for Command, Control, Communications and Intelligence, and as a professional staff member with the House Permanent Select Committee on Intelligence.

J.R. Burnett - is the chairman of the Strategic Advisory Group for the U.S. Strategic Command, and the Scientific Advisory Board of the National Security Agency. He retired as executive vice president and deputy general manager of TRW's Space and Defense Sector after thirty-five years of service with the company. He is a member of a number of government committees, panels and corporate boards of directors.

Ann Caracristi - is a consultant to the NSA Scientific Advisory Board and a member of the Board of Visitors of the Defense Language Institute Foreign Language Center She is a former Deputy Director of the National Security Agency, served two terms as President of the Association of Former Intelligence Officers, and was a member of the Chief of Naval Operations Executive Panel from 1982 to 1991.

Antonia Handler Chayes - is a Senior Consultant at ENDISPUTE, INC., where she serves as mediator and arbitrator in business disputes. During the Carter Administration she was Under Secretary of the U.S. Air Force and also served as Assistant Secretary of the Air Force for Manpower, Reserve Affairs and Installations. Ms. Chayes is a director of United Technologies Corporation, an Adjunct Lecturer at the Kennedy School of Government and has been an Adjunct Professor at the Georgetown School of Law. She is a member of the Aspen Institute Core Group on Strategy and Arms Control, and of the Dartmouth Conference of the Kettering Foundation.

Anthony Lapham - is a partner with the law firm of Shea and Gardner. He is a former CIA General Counsel and member of the President's Intelligence Oversight Board.

Nina J. Stewart - recently served as the DCI's Special Assistant. She is a former Deputy Assistant Secretary of Defense for Counterintelligence and Security Countermeasures, and Executive Director of the President's Foreign Intelligence Advisory Board. Ms. Stewart has participated in numerous commissions, which include the Inman and Laird Panels.

Richard Stolz - served with the CIA for thirty-four years, most recently as the Deputy Director for Operations. He is the recipient of numerous awards in the field of intelligence, including the National Security Medal for distinguished achievement in the field of intelligence relating to the national security.

Harry Volz - is Director of Corporate Security, the Grumman Corporation. Mr. Volz currently serves as co-chair of the National Industrial Security Program Steering Committee and has held prominent positions on industry-wide security committees during his more than thirty years of corporate security experience.

General Larry Welch USAF (Retired) - is the President and Chief Executive Office of the Institute for Defense Analysis. General Welch was the former Chief of Staff, USAF, Commander in Chief, Strategic Air Command and Vice Chief of Staff, USAF. He is currently a consultant to the Defense Science Board and active in numerous national security associations.

Question. Can the ISOO or the National Security Council issue directives altering physical security equipment standards without having those directives submitted and reviewed by the OMB Office of Federal Procurement Policy?

Answer. Under Section 5.2(b)(1) of Executive Order 12356, "National Security Information," the "Director [of ISOO] shall develop, in consultation with the agencies, and promulgate, subject to the approval of the National Security Council, directives for the implementation of this Order, which shall be binding on the agencies." ISOO Directive No. 1, 32 CFR Part 2001, establishes, among other things, minimum standards for the safeguarding of national security information, which may include standards for security equipment used in safeguarding national security information. The Office of Management and Budget is one of the agencies that is always consulted before a change to ISOO Directive No. 1 is forwarded to the National Security Council for approval. The senior agency official at each agency is responsible for assuring that necessary components within that agency review proposed policy changes to the information security program.

QUESTION SUBMITTED BY SENATOR MIKULSKI

WORKING CAPITAL FUND

QUESTION: Please justify your decision to conduct a reduction-in-force for the hard-working people at the Printing and Dist-ibution Branch. Do your efforts to reduce operations at this printing facility offer the best value to the tax payer?

ANSWER: The decision to restructure the National Capital Region printing and distribution operations was a business decision, because GSA's Working Capital Fund operates as a business. In FY 1991, the plant ended the year with a net loss. In FY 1992, the plant ended the year with a slight profit, but only because extraordinary and creative measures were taken to generate additional workload during the last quarter. From the beginning of FY 1993, the plant has been projected to show a net loss for this fiscal year, and the projections have grown more negative as each month passed. Year to Date, this printing operation is showing a net loss of $457,000.

The results of our in-depth analysis indicates that restructuring and staffing reductions are absolutely necessary. Furthermore, these reductions must take place as soon as possible to reduce the likelihood of losses in the future.

In fiscal year 1992, approximately eighty five percent of the printing jobs assigned by our Central Office were assigned to the National Capital Region. Thus far this

year, sixty six percent of the jobs assigned by our Central Office have been assigned to the National Capital Region. This compares favorably to the work assigned to NCR for completion at this time last year.

The decision to conduct a Reduction-In-Force was not made until all other possible alternatives had been considered, and until it was clear that we could not achieve our financial objectives in any other manner. The region is taking every possible action to mitigate the detrimental impact of the Reduction-In-Force on the employees, including the offering of optional early-out retirement, employee counseling, and continuous outplacement assistance.

QUESTIONS SUBMITTED BY SENATOR BYRD

CHARLESTON FEDERAL BUILDING-COURTHOUSE

Question. Acting Administrator Stasch - The FY 1991 Treasury, Postal Services and General Government Appropriation bill included, at my request, an amendment in the amount of $80,407,000 to construct a 256,000 square foot Federal Building-Courthouse in Charleston, West Virginia, in order to consolidate into a single Federal office building the staff serving the courts and other Federal agencies.

In implementing this project, several actions have been taken. In September 1991, GSA selected the National Bank Plaza, in Charleston, as the site. On September 30, 1991, a $4.7 million architectural/ engineering contract was awarded to Skidmore, Owings & Merrill (SOM) of Washington, D.C. On April 24, 1992, the architects of the building unveiled three possible designs. On December 16, 1992, the Chief Judge of the Southern District of West Virginia issued a "Judgement upon Declaration of Taking" which gives GSA the ownership of the property. The Charleston National Bank requested more occupancy time to allow the Bank to find an alternate site for its drive-in operations. The Courts have extended the bank's occupancy period through June 1993.

On October 23, 1992, I wrote to the then Administrator of GSA, requesting a status report on the project, including significant milestone events leading to full implementation of the project.

In response to my letter, then-Administrator Richard G. Austin, in a letter dated December 15, 1992, provided the following revised schedule for the project:

Site Acquisition	Feb. 15, 1993
Site Demolition/Excavation Start	Feb. 15, 1993
Design Complete	Mar. 30, 1993
Invitation for Bid	Apr. 30, 1993

Excavation Complete	June 30, 1993
Construction Contract Award	Not Provided
Construction Complete	Dec. 30, 1995

On May 14, 1993, the Commerce Business Daily published a pre-solicitation notice on the availability of bid documents. The notice indicates that solicitation packages will be available on or about June 1, 1993, with a submission due date of July 20, 1993. I am advised that the site is expected to be cleared this summer, with a construction contract to be awarded by September 30, 1993 and construction to be completed by the end of December 1995, with agency occupancy by April 30, 1996.

I continue to be concerned about the delays this project has experienced, although I recognize that some of the delay has been beyond the control of the GSA. What can be done to accelerate this project?

Answer. The current construction contract duration of two years and three months cannot be decreased for a project of this scope and complexity. We have exhausted all avenues to accelerate the project schedule.

Question. Please update for the record the status of this project, including a current milestone schedule.

Answer. The current schedule of milestone dates are as follows:

Site Acquisition (actual)	Dec. 18, 1992
Site Demolition/Excavation Start	Jul. 24, 1993
Design Complete (actual)	Jun. 01, 1993
Invitation for Bids (actual)	Jun. 03, 1993
Site Demolition/Excavation Complete	Nov. 30, 1993
Construction Contract Award	Sep. 15, 1993
Construction Complete	Feb. 28, 1996

The site demolition/excavation start is now scheduled for July 24, 1993, with the site demolition/excavation completion by the end of November. The Charleston National Bank requested, and was granted by the Courts, an extension to remain on the site until July 23, 1993. The demolition/excavation must be postponed until the bank vacates the site.

The construction contract award is still scheduled for September 15, 1993. However, the building construction cannot begin until the beginning of December 1993 when the excavation is complete. The construction completion is therefore delayed until February 28, 1996. (Note that without the delay from the bank occupancy extensions, we would still meet the original December 30, 1995, completion milestone date.)

Question. Please estimate the approximate number of man-years of employment and average salary which will

be generated in the construction of the facility and indicate the period over which these personnel will be employed.

Answer. Approximately 537 man-years of employment will be created by the construction of this building, at an average salary of $36,000; the gross salaries are estimated to be $19,332,000. We expect the actual time of construction for the Federal Building/Courthouse (FB/CT) to take approximately 2 1/2 years to build.

Question. Also, please work with the affected Federal agencies to estimate the number of employees (approximately 250) to be stationed at the facility once it is completed along with the annual economic impact, including salaries and other local purchases.

Answer. At the building completion in 1996, the building will have approximately 350 employees. The annual economy will not be effectively impacted from the employees stationed in the new facility. These employees will not be new to the area, but are being relocated from the existing Federal Building and U.S. Courthouse (two blocks from the new site).

Question. Acting Administrator Stasch, may I have your assurances that you will do what you can to accelerate this project and that you will keep me fully informed of the progress of this important project?

Answer. GSA will apprise the Committee of changes in the status of this project. In the unlikely event that this project is significantly altered or delayed, GSA will notify the Committee.

BECKLEY FEDERAL BUILDING AND U.S. COURTHOUSE

Question. Acting Administrator Stasch, the Fiscal Year 1992 Treasury, Postal Service and General Government Appropriation bill included, at my request, $25 million for design and construction of a new Federal Building and U.S. Courthouse in Beckley, to house an IRS 300-person operation, as well as for other Federal agency space requirements. The FY 1993 Treasury, Postal Service Appropriation bill included, at my request, an additional $10 million for the Beckley Federal Building and U.S. Courthouse to bring the total funding for this project to $35 million.

On October 23, 1992, I wrote to the then-Administrator of GSA, requesting a status report on the project, including significant milestone events leading to full implementation of the project.

In response to my letter, then-Administrator Richard G. Austin, in a letter dated December 15, 1992, provided the following information:

> GSA is prepared to begin Architect and Engineering (A&E) work and site selection. However, the IRS has informed GSA that it will not be able to provide complete requirements until the beginning of the 1993 calendar year. Until such time as IRS complete requirements are received, GSA is unable to proceed further with the site selection and A&E selection. A schedule of milestone events will be developed once requirements are received from the IRS by GSA, and you will be notified accordingly.

Subsequently, through discussions with both IRS and GSA staff, the following information has been provided. IRS submitted site requirements to GSA on January 29, 1993, and plans to establish a temporary Administrative Services Center site with limited operations in Beckley by late 1993 or early 1994. The IRS plans to gradually phase in additional operations to the temporary site while the permanent site is under construction. The permanent site is scheduled for completion in early 1997 and the IRS confirms that it will house an estimated 300 IRS employees.

On May 2, 1993, the Beckley Register Herald and the Charleston Daily Mail contained the following notice: Advertisement for Federal Building Site -- Public notice is given that the GSA will conduct an investigation of possible sites for the construction of a Federal Building and Courthouse in Beckley, West Virginia. A site of approximately 4-6 acres is needed.

Please provide for the record the status of acquiring the space needed for the temporary IRS Administrative Services Center. How much temporary space is needed?

Answer. The IRS requires approximately 20,000 square feet of space. To accommodate IRS's need to have an immediate presence in Beckley, IRS will move into the vacant SSA Trust Building. This will provide 3,730 square feet of space, and the balance will be provided through lease acquisition.

Question. How long will the space be needed?

Answer. We expect to have the lease acquisition completed within the next 12 months.

Question. How many employees are expected to be housed in this space?

Answer. The IRS activities will employ a maximum of 150 employees until the new FB/CT is built. Once

the FB/CT is built, the IRS expects to employ 300 personnel.

Question. When do you expect to occupy this space?

Answer. Please refer to the estimated project schedule included in this response.

Question. Please also update for the record the status of the Federal Building-Courthouse for Beckley, including a current milestone schedule.

Answer. The estimated project schedule is as follows:

Estimated Project Schedule **

Site Selection	3-5 Months (Began June 1993)
Design Competition	3-4 Months
AE Procurement	12 Months after Design Competition
Building Design	12-14 Months
Procurement Contract	6 Months
Construction	24 Months
Phased Occupancy	4-6 Months

**Final schedule to be submitted by July 31, 1993. We believe this represents the optimum timeframes for delivering this facility.

Question. What other agencies will be located in this new facility?

Answer. Other tenants besides the IRS identified for occupancy in the FB/CT are:

Agency	Number of Employees*
Department of Labor	1
U.S. District Court	7
U.S. Probation	8
U.S. Attorneys	Unstaffed office, up to 10 employees could be there 2 to 3 days/week/trial
U.S. Marshals	7
FBI	3
SSA	33

* All of these estimates are based upon 10 year projections.

Question. What can be done to accelerate this project?

Answer. GSA has found that where local Governments fully support and assist in the site selection process, projects are not unnecessarily delayed. At this time, GSA does not foresee any delays; however, the site

selection process is potentially an area which may delay the start of this project.

This project is considered one of GSA's regional priority projects; as a result, the project receives intensive management attention. Any opportunities that avail themselves to accelerate the project delivery will be taken advantage of.

Question. In response to questions for the record last year, then Administrator Austin indicated that GSA staff were working with local officials in Beckley regarding the location of this project. I trust that the GSA will continue to cooperate with the local community to the maximum extent possible within the laws, rules, and guidlelines governing such matters.

Please estimate the approximate number of man-years of employment and average salary which will be generated in the construction of the facility and indicate the period over which these personnel will be employed.

Answer. This project will provide approximately 212 man-years, with an estimated average construction worker salary of $36,000; the total gross income is estimated to be $9,000,000. We expect the FB/CT to take 2 years to build.

Question. Also, please work with the IRS and other Federal agencies to estimate the number of employees to be stationed at the facility once it is completed along with the annual economic impact, including salaries and other local purchases.

Answer. Once the FB/CT is built, the IRS expects to employ 300 personnel. The IRS is currently developing a study of the impact it believes this project will have on the local economy.

Question. Acting Administrator Stasch, may I have your assurances that you will do what you can to accelerate this project and that you will keep me fully informed of the progress of this important project?

Answer. GSA will apprise the Committee of changes in the status of this project. In the unlikely event that this project is significantly altered or delayed, GSA will notify the Committee.

INTERNAL REVENUE SERVICE COMPUTER CENTER IN MARTINSBURG, WEST VIRGINIA

Question. Acting Administrator Stasch, over the past several years, I have encouraged expansion activities at Martinsburg through hearing questions, report language, and letters to the Chairmen of the House and Senate authorizing committees, urging early

and favorable action on the prospectus package for the 63,000 square foot annex to the IRS Computer Center.

On January 19, 1993, I received a letter from the Internal Revenue Service, reporting that the General Services Administration had informed them that because all bids from prospective developers had substantially exceeded the congressional prospectus of $42 per square foot, the only way IRS could obtain space by 1994 was to drastically alter the building requirements, reduce the cost and reopen the bidding process.

Please update for the record the status of this project, including a current milestone schedule.

Answer. Contract Addendum Number 4 has been issued and a request for best and final offers has been requested. The space delivery schedule is as follows:

Milestone Schedule

Receive Best and Final Offers	- July 29, 1993
Estimated Contact Award	- October 1993
Estimated Building Delivery Date	- April 1995

In order to minimize delays, the appraisal has been completed and the environmental assessment is well under way.

Question. What can be done to accelerate this project?

Answer. This project has contract language and features which will ensure timely delivery. The contract has a liquidated damages provision of $5,000 per day for contractor delays. The project includes a private-sector construction quality manager to ensure contract compliance.

GSA's Philadelphia Regional Office has scheduled meetings twice a month to address potential delays and to discuss steps which may be taken to ensure prompt delivery of the facility.

Question. Please estimate the approximate number of man-years of employment and average salary which will be generated in the construction of the facility and indicate the period over which these personnel will be employed.

Answer. Due to the procurement sensitivity of providing man-year estimates, it is not possible at this time to provide an estimate of the required number of man-years to develop this facility. To do so now would compromise the procurement's integrity. As this is a lease project, GSA does not have a specific development budget; however, the estimate of total costs are part of the authorizing legislation. Upon award, GSA will be

able to provide reasonably reliable man-year estimates which will be based upon the successful offeror's anticipated costs.

Question. Also, please work with the IRS and other Federal agencies to estimate the number of employees to be stationed at the facility once it is completed along with the annual economic impact, including salaries and other local purchases.

Answer. IRS has indicated 150 employees will staff the new facility; however, the salaries and grades for each position have not been determined. We will provide this information when it becomes available.

Question. What other facilities are being considered for expansion at the IRS Computer Center?

Answer. No other facilities are being considered for expansion at the IRS Computer Center.

Question. Acting Administrator Stasch, may I have your assurances that you will do what you can to accelerate this project and that you will keep me fully informed of the progress of this important project?

Answer. GSA will apprise the Committee of changes in the status of this project. In the unlikely event that this project is significantly altered or delayed, GSA will notify the Committee.

BUREAU OF ALCOHOL, TOBACCO AND FIREARMS
COMPUTER OPERATIONS

Question. Acting Administrator Stasch, in following up on the enactment of the FY 1991, FY 1992, and FY 1993 Treasury, Postal Services Appropriation bills, on October 23, 1992, I wrote to the then-Administrator of GSA, requesting a status report on the project, including significant milestone events leading to full implementation of the project.

In response to my letter, then-Administrator Richard G. Austin, in a letter dated December 15, 1992, provided the following revised schedule for the project:

Action to acquire a new 35,000 square foot, free-standing, one-story leased building to be constructed for ATF is on schedule for September 1993 delivery. Significant milestones are as follows:

	Planned	Actual
Market Survey		10/19/92
Solicitation for Offers Issued		10/30/92
Offers Due		10/27/92
Best and Final Offers	12/10/92	

Award	12/31/92
Occupancy	9/93

Subsequently, I have been informed that the General Services Administration, on March 29, 1993 awarded a 15-year, $11 million lease to Van Wyk Enterprises, Inc., of Martinsburg, which will result in the construction of a custom-built 35,000 square foot facility, at the Spring Mills Office Park at Falling Waters north of Martinsburg.

Please update for the record the status of this project, including a current milestone schedule. In addition, please indicate, after consultation with the Bureau of Alcohol, Tobacco and Firearms, the number of employees and the annual economic impact resulting from the establishment of this new facility.

Answer. The number of employees to be housed in the new AT&F facility is projected to be 90. The annual economic impact of constructing this facility is estimated to be $2 million.

Milestone Schedule

Contract Award (actual)	- Mar. 29, 1993
Estimated Construction Completion	- Feb. 1994
Estimated Occupancy Date	- Mar. 1994

Question. Please estimate the approximate number of man-year of employment and average salary which will be generated in the construction of the facility and indicate the period over which these personnel will be employed.

Answer. The approximate number of man-years of employment tied to the construction of the facility is 45 which has an annual payroll of $900,000 or $20,000 per year per person ($10 per hour). Please consult the above milestone schedule for period of employment.

Question. Acting Administrator Stasch, may I have your assurances that you will execute the transition of this project in a timely manner to assure that the timetable is followed and keep me informed of any developments relating to the project?

Answer. GSA will apprise the Committee of changes in the status of this project. In the unlikely event that this project is significantly altered or delayed, GSA will notify the Committee.

ADDITIONAL WEST VIRGINIA FEDERAL OFFICE BUILDINGS

Question. I am advised that the General Services Administration has studied the need for space to house the U.S. Courts and Federal agencies in both Clarksburg and Wheeling, West Virginia. What is the status of these two projects?

Answer. GSA's Regional Office received a Long Range Facility Plan from the Courts for the Northern District of West Virginia in September 1992. Identified in this plan was the significant growth of the Courts in the district and the need for additional housing, specifically in the cities of Clarksburg and Wheeling, for the Judiciary and court-related agencies. To date, the plan remains in draft form. The Regional Office has expressed a need for a final version of the plan from the Courts, as well as the need for a more detailed 10-year requirements package. The Region has not received this package and has not developed a project in either area pending receipt.

In addition to the projected space needs of the Court, the Regional Office has solicited the future need of the executive agencies by issuing Space Projection Forms to all agencies, except the Courts, in the communities. Once these projection forms are returned, the Regional Office will review these requirements with the Courts' 10-year needs package to compile a comprehensive housing plan for each community.

In Clarksburg, GSA currently owns no space, but houses Executive and Judiciary agencies in the United States Postal Service (USPS) - owned Post Office Courthouse (PO-CT) and three leased locations in the city. The Courts, court-related agencies, and a Congressional office use 14,855 occupiable square feet (osf) of space in the PO-CT. The agencies in leased space include the Courts, Justice, Labor, and Health and Human Services.

In Wheeling, GSA owns a Federal Building and Courthouse (FB-CT) which houses the Judiciary, court-related agencies, a congressional office and USPS in a total of 36,880 osf. GSA also owns the Social Security Administration (SSA) Trust Fund Building which houses SSA in 4,975 osf of space. GSA leases four locations in which it houses various Executive agencies in 23,473 osf of space.

Question. What and when are the next steps and when will they happen? Which agencies are to be located in each Federal Building? Approximately how many employees would be located in each facility? What level of funding would be needed to provide direct construction of each of these projects?

Answer. GSA anticipates the need for a replacement facility for Clarksburg and a possible annex to the FB-CT in Wheeling. However, until GSA receives the aforementioned information from the Courts and Executive agencies it cannot be determined which agencies would occupy these facilities, how large these facilities ought to be, how many employees would be housed in them, or what the construction costs of any new facilities might be.

QUESTIONS SUBMITTED BY SENATOR BOND

MORATORIUM ON PROJECTS

Question. Mr. Johnson, the nominee for Administrator, announced Friday a moratorium on projects. I believe that each administration should review programs, but things are not always what they seem to be. Several questions come to mind. Could you outline what the impact of a moratorium will be?

Answer. GSA is still developing the process for a "period of suspend and review". We feel it would be premature at this point to try to predict how this might affect the capital projects program.

Question. What will the review entail?

Answer. The review would apply to projects other than those already under construction or which address conditions related to fire and life safety for purposes such as to revalidate the agency or tenant requirements, to confirm that all viable alternatives were fully explored, and to evaluate whether or not the recommended solution is indeed the most cost-effective use of taxpayer dollars.

Question. Are there any initial perceptions?

Answer. We believe that the suspend and review process would serve to increase the level of confidence that decisions are being made with cost-effectiveness as the imperative.

DIFFERENCE BETWEEN A CAPITAL AND OPERATING LEASE

Question. Could you briefly describe the difference between a capital and an operating lease?

Answer. In general, if 1) the Government has an equity interest in the asset, or 2) the stream of rental payments over time equals or exceeds the asset's value, the lease is a capital lease.

OMB Circular A-11 stipulates that in order for a lease to be classified as an operating lease it must meet all of the following criteria:

- The lease may not contain a "bargain price" purchase option;

- Ownership will not transfer at the end of the lease term;

- The lessor assumes all risks of ownership;

- The lease term does not exceed 75 percent of the economic life of the asset;

- The present value of the minimum lease payments over the life of the lease does not exceed 90 percent of the fair market value of the asset;

- The asset must be for general purpose space, not built to unique Government specifications;

- It is not constructed on Government-owned land.

Therefore, if any of the above listed criteria are not met, the lease is, by definition, a capital lease.

The timing of the scoring of budget authority is significantly different for the two types of leases. Basically, a capital lease requires the upfront scoring of budget authority in the fiscal year in which the capital lease is first authorized. An operating lease scores budget authority in annual increments over the term of the lease. The scoring of outlays, both amount and timing is identical. The outlays are scored (recorded), as payments are made to the lessor over the term of the lease.

Attached is a copy of a GSA paper entitled "Scoring Rules for Real Estate Transactions". This paper explains in detail the various acquisition methods that GSA utilizes to acquire interests in real property and the scoring implications of each method.

Question. What is the advantage of each?

Answer. The advantage to operating leases is in the scoring of these transactions over the term of the lease. However, the structure of a lease (the size and term) should be determined by the nature of the Federal Government's space needs and the economic conditions, not scoring rules. For relatively small blocks of space to meet short-term or interim requirements, operating leases are perfectly appropriate. However, when the Government has a long-term need for a significant block of space, or for special purpose space, a capital lease is often preferable to an operating lease.

The primary advantages are: 1) by entering into long term leases for large blocks of space, GSA is able to take advantage of the lessors' ability to amortize his or her investment over a longer lease term which results in a lower lease payment; and 2) in the current economic client many lessors are willing to offer GSA an equity position in their property through bargain price purchase options during the term of the lease or at the end of the lease term.

Question. Which is in the Government's best interest?

Answer. In some cases an operating lease is best, in others a capital lease is best. GSA performs

individual economic analyses to determine the optimal acquisition method for each requirement. This analysis, in consort with our client agency's requirements and market conditions, should be the prime determinants of the size and term of the lease, and whether or not the Government should have an equity position in the lease. Unfortunately, because of scoring considerations, GSA is often forced into operating leases when the government's interests would best be served by a capital lease.

ACQUISITION OF PROPERTY

Question. Current procedures with regard to acquisition of property have a significant impact on costs of Federal buildings. Could you briefly describe the current rules?

Answer. The current rules are summarized on pages 1 and 2 of the attached report.

Question. Doesn't this seem to be scoring prudent, but fiscally a mistake?

Answer. The current scoring rules and the budgetary treatment of Federal Financing Bank transactions effectively prevent GSA from taking advantage of cost effective alternatives for housing Federal agencies.

Question. What can we do to get the best deal for the Government?

Answer. We can improve the process by clarifying the scorekeeping guidelines in Conference Report 101-964 accompanying the Omnibus Reconciliation Act of 1990. This would enable GSA to utilize a variety of methods of acquiring an interest in real property based on the economics of the offers as opposed to the requirement to fit the transactions into scoring rules and guidelines.

The attached paper titled "Scoring Rules for Real Estate Transactions" provides a more detailed response to the previous questions.

[The information follows:]

SCORING RULES FOR REAL ESTATE TRANSACTIONS

BUDGET SCOREKEEPING AND ACQUISITION OF REAL PROPERTY

I. EXECUTIVE SUMMARY

Statement of Problem: The budget scorekeeping rules established by the Conference Report accompanying the Budget Enforcement Act of 1990 and the budgetary treatment of Federal Financing Bank

(FFB) transactions effectively prevent the General Services Administration (GSA) from taking advantage of cost effective alternatives for housing Federal agencies. Specifically, the scorekeeping rules limit GSA's ability to acquire an interest in real estate by capital lease or lease-purchase. Real estate decisions which are driven by scoring rules, instead of economics, result in higher life-cycle costs for the Federal Government. This unintended consequence of the rules should be addressed.

Current Scorekeeping Rules: The budget scorekeeping rules accompanying the Budget Enforcement Act of 1990 require that all lease-purchases and capital leases of capital assets be scored upfront. The rules also provided eight criteria defining an operating lease; a lease not meeting any one of the eight criteria is, *ipso facto*, a capital lease and must be scored upfront. This effectively prohibits GSA from acquiring an equity position in its leasehold interests.

Federal Financing Bank (FFB) Transactions: The most cost effective means of acquiring space by lease-purchase is to borrow funds through the FFB, an entity of the U.S. Treasury. The Balanced Budget and Emergency Deficit Control Act of 1985 (familiarly known as the Gramm-Rudman-Hollings Act) placed all FFB transactions on budget - requiring that they be scored upfront.

Impact on GSA Real Estate Program: The scorekeeping rules prevent GSA from exercising cost effective means of acquiring ownership (lease-purchase) and can drive the structure and terms of a lease. The requirement that a lease be configured as an operating lease to avoid upfront scoring forces GSA to make poor business decisions. The housing requirements of tenant agencies, and the economies available in the market place have become secondary to budget scorekeeping considerations. Included are several actual examples where scorekeeping rules have driven real estate decisions.

Unique Aspects of GSA Real Estate Program: GSA transactions for the acquisition of real property are different in several key aspects from other types of capital investment. First, in most cases there is general agreement between GSA, OMB and the Congress as to the need for space. The decision making process centers on how to acquire it, not whether to acquire it. GSA real estate activities are funded by the Federal Buildings Fund (FBF), an intra-governmental revolving fund. The user fees paid by the occupying agencies provide a steady stream of revenue to cover debt service and operating costs.

Proposed Solutions: 1. Clarification of the budget scorekeeping rules for lease-purchase (privately financed) and capital lease would be sufficient to make these alternatives available to GSA. 2. Relief from the upfront scoring of FFB transactions cannot be addressed solely through interpretation of scorekeeping rules; a specific legislative provision would be required. All projects and the acquisition method for each project would continue to be determined as part of the budget formulation and authorization process.

II. BACKGROUND

The General Services Administration (GSA) is the Federal Government's primary provider of general purpose real estate. The

GSA inventory at the end of fiscal year 1992 included 118 million square feet of leased space and 140 million square feet of owned space, for a total inventory of 258 million square feet. GSA finances the operation and maintenance of existing buildings, as well as, acquisition of new space through the Federal Buildings Fund (FBF). The FBF is an intra-governmental revolving fund. Occupant agencies pay GSA commercial equivalent rents for the space they occupy. These revenues are deposited in the FBF and authority to obligate these revenues is provided in the annual appropriation act.

Traditionally, GSA has acquired space through leasing and direct federal construction. In order to determine which method of space acquisition should be pursued, GSA has developed a computer model which compares the life-cycle costs of various housing alternatives according to the methodology prescribed by the Office of Management and Budget (OMB) Circular A-94. In recent years, regardless of the results of the economic analysis, FBF financial constraints and the budgetary treatment of capital investment have determined the method of acquisition. If the FBF cannot supply the necessary upfront capital to initiate direct Federal construction then leasing becomes the only available option. Funding shortages have forced GSA to lease in many cases where ownership would have been much less expensive.

When the Federal Buildings Fund was established in 1975, it was projected that the market based Rent income would be adequate to operate and maintain the existing inventory and to build a modest number of new facilities. However, over several years, budget policy decisions reduced the collection of Rent receipts from client agencies below commercial equivalent levels. The cumulative income reduction totals $2.9 billion since 1975 ($5.1 billion in 1993 dollars). This reduced funding has had its greatest impact on capital investment activities, resulting in a backlog of major repair and modernization projects in existing buildings and a significant deferral of new construction projects to meet long-term space requirements.

Starting in 1988, GSA was allowed to collect market based Rent income from its client agencies with only a few exceptions. This permitted GSA to reduce the backlog of repair and alteration projects and that activity is now at a planned equilibrium level. In fiscal year 1991 GSA received a direct appropriation of $1.6 billion which partially mitigated the impact of previous caps. However, current funding levels remain insufficient to meet new construction needs. The rate structure of the FBF was not designed to provide the volume of upfront cash necessary to construct and purchase buildings for large expansion needs, such as the Judiciary, and simultaneously reduce the amount of leased space.

Historically, there have been periods of under-funding of GSA's direct Federal construction as a result of restrained domestic capital spending. This led to an accumulation of backlogged construction projects. Three times, this has resulted in congressional approval of limited authority to fund such projects utilizing "off-budget" financing. In 1954, GSA received 3-year authority to enter into agreements with developers whereby a mortgage type debt instrument was used to build 23 buildings. Again in 1972, GSA was given 3-year "purchase contract" authority to finance the construction of 68 backlogged projects. GSA used private and public placements for financing these projects until the Federal Financing Bank (FFB) began operations in 1974. The final 16 projects were then funded through the FFB by off-budget

borrowing. In the late 1980's Congress authorized a total of 10 lease purchase projects in annual Appropriations Acts.

Despite these periodic increases in Federal construction, the Federal Government's reliance on leasing has increased. In 1975 GSA's leased space inventory was 86 million square feet and the annual leasing budget was $388 million. By fiscal year 1992, the leased inventory had grown to 118 million square feet with an annual rental cost of $1.7 billion; a square footage increase of 37% and a 332% increase in cost. During this same time period the ratio of government-owned to leased space declined from 64% in 1975 to 54% in 1992.

Unless significant additional budgetary resources are made available for capital investment or the scoring rules for real estate are clarified, the Federal Government will continue to expend large sums to lease general purpose space, even in those markets where ownership is more cost-effective.

III. Explanation of Current Scoring Rules

There are six ways in which GSA can acquire a real property interest. Four methods (direct construction, purchase, government-financed lease-purchase and privately-financed lease-purchase) result in Government ownership while the remaining two (capital and operating leases) represent the acquisition of a leasehold interest which terminates at the conclusion of the lease payments.

This section provides a detailed explanation of how budget authority (BA) and outlays are scored for each type of transaction. The two charts on the following pages summarize the scoring rules for each transaction. The narrative which follows provides a more detailed explanation of the amounts scored and the scoring criteria which define each type of transaction.

In order to place all of the transactions on an equal financial basis it has been assumed that the term for lease-purchases and leases will be 20 years from the date of occupancy. It is also assumed that the contract cost of the building in all cases will be $79.8 million, and the residual value of the asset (land and building) in year 23 (the end of the lease-purchase term) will be $26.7 million. The residual value is shown for informational purposes, only. Residual value is not taken into account in the budget estimates.

The estimates of BA and outlays on page 7 are based upon a hypothetical project of approximately 334,000 occupiable square feet located in a Federal regional city. The economic assumptions are based on current interest rates. For purposes of this presentation the design-build method of construction will be used and the construction term is for three years.

SCORING OF BUDGET AUTHORITY AND OUTLAYS

	BUDGET AUTHORITY	INT. RATE	OUTLAYS	OWNERSHIP
CONSTRUCTION	ASSET COST SCORED UP FRONT	N/A	DISBURSEMENT FOR ASSET COST SCORED OVER CONSTRUCTION PERIOD	Y
PURCHASE	PURCHASE PRICE SCORED UP FRONT	N/A	DISBURSEMENT FOR PURCHASE PRICE AT CLOSING	Y
LEASE-PURCHASE *	ASSET COST, PLUS CONSTRUCTION PERIOD INTEREST SCORED UP FRONT	FEDERAL	DISBURSEMENT FOR ASSET COST PLUS CONSTRUCTION PERIOD INTEREST SCORED OVER CONSTR. PERIOD	Y
LEASE-PURCHASE II *	ASSET COST, PLUS CONSTRUCTION PERIOD INTEREST & TREASURY DIFFERENTIAL SCORED UP FRONT	PRIVATE	ANNUAL LEASE-PURCHASE PAYMENT	Y
CAPITAL LEASE *	ASSET VALUE SCORED UP FRONT	PRIVATE	ANNUAL LEASE PAYMENT	N
OPERATING * LEASE	ANNUAL LEASE PAYMENT SCORED ANNUALLY	PRIVATE	ANNUAL LEASE PAYMENT	N

*20 year term

FEDERAL BUILDINGS FUND
SCORING OF BUDGET AUTHORITY AND OUTLAYS
ACQUISITION OF REAL ESTATE
(DOLLARS IN MILLIONS)

	BUDGET AUTHORITY SCORED UP FRONT	OUTLAYS BY YEAR 1st	2nd	3rd	4th/23rd	TOTAL	RESIDUAL VALUE 2/
CONSTRUCTION	79.8	21.9	36.0	21.9	---	79.8	26.7
PURCHASE	79.8	79.8	----	----	----	79.8	26.7
LEASE-PURCHASE	90.9	22.6	40.2	28.1	74.4	165.3	26.7
LEASE-PURCHASE II	97.3	----	----	----	190.0	190.0	26.7
CAPITAL LEASE	93.2	----	----	----	182.0	182.0	-0-
OPERATING LEASE	9.1 1/	----	----	----	182.0	182.0	-0-

1/ New Obligational Authority (NOA)

2/ Estimated value of the land and building in year 23; the year the lease or lease-purchase agreement ends.

Note: All lease purchase and lease arrangements assume a 20-year term

Acquisition Methods that Result in Ownership

CONSTRUCTION or PURCHASE:

The sample shown is for a direct funded Federal construction or purchase project. Under this method the cost of the asset (the contract cost), $79.8 million, is scored as BA in the year in which it is appropriated.

For construction, the outlays are scored over the term of the construction contract and mirror the expected payments to the contractor. For a purchase, the outlays are scored at the projected settlement date.

The total outlays for the project exactly equal the BA that was scored in the first year. This method of acquiring a real property interest requires the least total BA and outlays ($79.8 million) and does not include any cost of financing.

LEASE PURCHASE (Federally Financed):

By entering into a lease-purchase contract with the Government providing both the construction period and permanent financing, the cost of the asset plus that construction period interest are scored as BA in the year in which it is authorized. In this example the cost of financing the construction over a three year period is $11.1 million which results in a total requirement of $90.9 million. In addition to the amount initially scored as BA, there is a requirement to annually provide BA in the amount of the annual interest payment over the full 20 year repayment term.

Likewise there are two outlay requirements. The first requirement is to score the amount initially recorded as BA over the period during which the building is under construction. These outlays mirror the payments to the contractor plus an amount equal to the interest that accrues each year. The second requirement is to score the amount of the annual interest payment in the year(s) in which it accrues.

The total outlays for a federally financed lease-purchase project are the sum of: 1) the contract cost; plus 2) the accrued construction period interest; plus 3) the sum of the interest payments over the term (20 years) of the lease-purchase agreement. This equates to $165.3 million. ($79.8 million plus $11.1 million plus $74.4 million)

LEASE-PURCHASE II (Privately financed):
(Assuming private risk)

By entering into a lease-purchase contract with a developer who will provide both the construction period and permanent financing, the amount scored as BA is the cost of the asset plus the construction period interest plus the differential cost of financing.

The differential cost of financing is the net present value of the difference in cost between the developer's cost of borrowing and the Treasury cost of borrowing over a similar period.

In this example the three amounts to be scored are: 1) asset cost $79.8 million; 2) construction period interest at private rates $13.4 million; 3) the differential cost of borrowing $4.1 million. This totals to $97.3 million which is scored in the year that the project is authorized. In addition to the amount initially scored as BA, there is a requirement to provide annual BA in the amount of the undiscounted portion of the annual interest payment over the full 20 year repayment term.

Outlays for privately financed lease-purchase projects are scored in amounts equal to the annual lease-purchase payment in the year that the payments are due. This equates to outlays of $9.5 million per year for 20 years, a total of $190 million, starting when the Government accepts the building.

Unlike the previous methods, there is an additional cost that must be factored into the analysis. In situations where lease-purchases are privately financed, it is assumed that the Government does not hold clear title and as such the developer, and in turn the Government, is liable for the payment of real estate taxes until the lease purchase is paid in full.

Acquisition Methods that do not Result in Ownership

CAPITAL LEASE:

A capital lease is scored for both BA and outlays very similarly to a privately financed lease-purchase. The amount that is recorded as BA is defined as the asset value of the property. This is obtained by calculating the net present value of the net lease payments over the term of the lease.

BA is scored when the authority to enter into the capital lease first becomes available for obligation. Additionally, BA will be required in future years for the undiscounted portion of the net rent plus the cost of any services covered under the lease.

Outlays are scored as annual rental payments are made.

Unlike the previous methods, a capital lease, unless it contains a specific purchase option, does not transfer ownership to the Government at the conclusion of the lease term. For all intents and purposes a capital lease is the same as an operating lease except that it must be scored upfront. Total BA and outlays over the term of the lease are $182 million.

In general, if 1) the Government has an equity interest in the asset, or 2) the stream of rental payments over time equals or exceeds the asset's value, the lease is a capital lease.

OMB Circular A-11 defines a capital lease as any lease other than a lease purchase that does not meet the criteria for an operating lease. An operating lease must contain all of the following criteria:

- The lease may not contain a "bargain price" purchase option;
- Ownership will not transfer at the end of the lease term;
- The lessor assumes all risks of ownership;
- The lease term does not exceed 75% of the estimated economic life of asset;
- The present value of the minimum lease payments over the life of the lease does not exceed 90% of the fair market value of the asset;
- The asset must be for general purpose space, not built to unique Government specifications;
- It is not constructed on Government-owned land.

Therefore, if any of the above listed criteria are not met the lease is by definition a capital lease and must be scored as indicated above. If a lease meets all of above listed criteria it is defined as an operating lease and the scoring rules are listed below.

OPERATING LEASE:

An operating lease requires the same amounts of BA and outlays as a capital lease. The difference is that BA is scored over the term of the lease as opposed to being scored upfront. Total BA and outlays over the term of the lease are $182 million.

IV. IMPACT OF SCORING RULES ON GSA'S REAL ESTATE PROGRAM

The scorekeeping rules in the Conference Report accompanying the Budget Enforcement Act of 1990 and the treatment of Federal Financing Bank transactions effectively prevent GSA from taking advantage of cost effective alternatives for housing Federal agencies. First, GSA is not able to achieve the economies of ownership available in the real estate market and justified by the long-term housing requirements of the Federal Government. Second, GSA cannot always structure its leases in an optimal fashion and, at the same time, satisfy the criteria of an operating lease. "Optimal" means the best financial deal for the Government while meeting tenant agencies' long-term requirements.

In the private sector and non-Federal public sector, new construction and purchase of buildings are typically financed with borrowed funds, not upfront cash. In addition, capital investment is recorded as a depreciable asset, and expensed over its normal life. Federal budget concepts (and scoring rules) treat the cost of a capital investment as a current operating expense. Large capital projects must compete with operating requirements for a total budget availability derived from current Federal revenues. There is no recognition of the long-term value of a capital asset; hence, the frequent admonition that Federal budget decisionmaking is biased against capital investment.

When FBF resources are not sufficient to fund projects where ownership is economically preferable, the next best solution is to borrow funds to finance construction or purchase. Budget scorekeeping rules effectively preclude this option whether GSA borrows through the Federal Financing Bank or the private sector. As a result GSA frequently leases space when ownership is the economically preferable alternative. In addition at the end of a twenty year lease GSA has rental receipts rather than a tangible asset.

Once a decision is made to lease, scorekeeping rules (as opposed to optimal use of resources) can effectively drive the structure and term of the lease. Requiring budget authority for capital leases to be scored upfront can dictate a short lease term to ensure an operating lease or can make it difficult to lease at all, when space must be constructed for lease to GSA. The housing requirements of the tenant agencies, and the economies available in the market place, are secondary to scorekeeping rules. In the current real estate market, opportunities exist to negotiate an equity position in rental properties (such as below market purchase options) on favorable terms. GSA cannot take advantage of such opportunities since scorekeeping rules dictate that a lease with a below market purchase option is a capital lease.

The General Accounting Office (GAO) issued, in December 1989, a report entitled "Federal Office Space: Increase Ownership Would Result in Significant Savings". GAO analyzed 43 projects that GSA might have undertaken, if capital funding were available, to replace space that GSA would otherwise lease. GAO estimated the cost of constructing the 43 projects to be approximately $12 billion less than the cost of leasing the same space over a

30-year period. The estimated present value cost savings over the same period amounted to $1.26 billion.

Since the publication of the GAO report, scorekeeping rules have increased the existing bias in favor of short-term leasing to satisfy housing requirements of Federal agencies. The following examples illustrate the impact of budget scorekeeping on real estate decisions.

GSA leases space for a Federal agency in the Atrium Building in Herndon, Virginia. The current 10-year lease expires on April 15, 1999. Early in 1991, due to financial difficulties experienced by the building owner, GSA received an unsolicited offer from the foreclosing lender. The lender offered a 17.5 year lease with an additional 30,000 occupiable square feet of space and a $1 ownership option at the end of the lease term. In addition, the proposed stream of rental payments over the 17.5 year term was $2.7 million less than the stream of rental payments under the existing lease arrangement. Scorekeeping rules required that such a lease arrangement be scored upfront. Therefore, GSA chose to forego this financially attractive offer.

A second example is the authorization provided by the Treasury, Postal Service, and General Government Appropriation Act (P.L. 102-393) for GSA to lease a building to be constructed in downtown Atlanta, Georgia. The terms of this lease authorization were clearly designed to navigate budget scorekeeping requirements and force GSA into an operating lease, as opposed to a more cost effective housing solution, such as a lease purchase. The Act provides that the "Administrator is not authorized to enter into any lease for the property described herein that is not an "operating lease"" in accordance with the Budget Enforcement Act of 1990 and the accompanying Conference Report. The authorization specifically provides for a lease "not to exceed 27 years", and requires that any purchase option be at fair market value.

Since the implementation of the scorekeeping requirements of the Budget Enforcement Act, GSA has not undertaken a major lease procurement in the National Capital Region (NCR) to relocate and consolidate a large agency headquarters. Under the current rules, a lease such as the one entered into to relocate the National Aeronautics and Space Administration (NASA) to a consolidated facility would be scored as a capital lease. There are a limited number of opportunities to obtain large blocks of existing space under an operating lease. The operating lease solutions can also be more costly to the Government. The total rental bill over a twenty year period for the operating lease solution (multiple, smaller blocks of space and shorter lease terms) often exceeds the cost for a single twenty year lease.

These types of arrangements also result in higher costs for tenant agencies when they cannot achieve the efficiencies of operations that result from a single consolidated location. Solutions which result in housing a large, single agency requirement in multiple existing buildings can generate additional direct costs through the need for redundant facilities and additional indirect costs by imposing on GSA's client agency the need to coordinate functions housed in different buildings at separated locations.

Scorekeeping rules also preclude cost-saving opportunities by discouraging the search for them. Knowing that below-market purchase options, lease-purchase contracts, and other non-operating lease arrangements are subject to scorekeeping requirements removes all incentive to pursue them. Private

sector profitability depends on creative approaches to meeting the primary goals of the organization or firm. Constraints on the operations of Government such as budget scorekeeping focus attention on compliance with rules. However well intentioned and well crafted such rules may be, they cannot anticipate specific situations and future market environments. GSA, as indicated by the Atrium and Atlanta examples noted above, has diligently complied with rules established by the Budget Enforcement Act. The taxpayer and Federal agencies would be better served if these rules had sufficient flexibility to allow GSA to seek and realize opportunities having long-range advantages for both.

IV. ARGUMENTS FOR CLARIFYING THE SCORING RULES FOR REAL ESTATE

- Decisions to lease or own should be based on housing needs and the economics of a particular project - not the budgetary treatment of the acquisition method. Existing law and scorekeeping rules effectively limit the options available to the GSA for acquiring an interest in real estate. The only options currently available to GSA are direct Federal construction or an operating lease. Other options which may be more cost effective or more suited to the housing needs of a particular client are effectively precluded by the scoring rules. Those options include lease-purchase and capital lease.

- Ownership and non-ownership (i.e., operating leases) alternatives are not on a "level playing field" in the Federal budget process. The current statutory and scorekeeping biases toward an operating lease solution to the exclusion to ownership should be removed.

- When there is a consensus that a long-term housing requirement exists, GSA must acquire space to house the client agency. The Government will incur housing costs either through leasing or ownership. GSA should have the most cost effective options available for meeting the Government's housing requirements. To limit the options available promotes waste and inefficiency. Scorekeeping rules were not intended for this purpose.

- When GSA can satisfy requirements that meet the criteria for ownership through construction or purchase total outlays over the life of the project are minimized. The appropriate use of financing the acquisition of space to meet long-term needs would actually decrease Federal outlays over time.

- Under normal market conditions, the value of the asset will equal or exceed the outstanding debt service. In addition, when acquiring an equity position in real estate, the Government acquires an appreciating asset, which will continue to provide housing long after the lease has expired.

- The Government should be able to take advantage of the economies available in the current real estate market. The scoring rules prevent the Government from entering into favorable lease or lease purchase arrangements. Although bargain price purchase options may be available at little or no additional cost when negotiating a long-term lease, inclusion of such provisions would require the transaction to be scored upfront.

- With the limited options currently available, the Federal Buildings Fund (FBF) cannot take advantage of the fact that it is a revolving fund with a stable revenue stream sufficient to cover debt service and operating costs.

VI. PROPOSED SOLUTIONS

(a) Existing law and scorekeeping rules effectively limit the options available to GSA for acquiring an interest in real estate. By clarifying the scorekeeping guidelines in Conference Report 101-964 accompanying the Omnibus Reconciliation Act of 1990, capital lease and lease-purchase (privately financed) can be made available to GSA as a method of acquiring an interest real estate. The clarification would be as follows:

GSA Real Estate Transactions. - Lease-purchase and lease of real estate under authorities currently available to the General Services Administration (GSA) are not subject to the aforementioned scorekeeping guidelines. When a bill provides the authority for GSA to enter into a contract for the lease-purchase or lease of a real estate capital asset, obligations and outlays will be scored in increments over the term of the lease-purchase or lease as payments are made by GSA to the lessor. This scoring rule applies irrespective of whether the asset is general or special purpose or is located on Government land. This scoring rule is limited to those real estate transactions funded through the Federal Buildings Fund (FBF) -- an "intragovernmental" revolving fund financed by income from GSA client agencies -- from which payments are made by GSA to the lessor.

(b) The most cost effective means of financing a lease-purchase acquisition is by borrowing through the Federal Financing Bank (FFB) of the United States Treasury. The Balanced Budget and Emergency Deficit Control Act of 1985 (familiarly known as the Gramm-Rudman-Hollings Act) placed all transactions of the FFB on budget, i.e., all transactions of the FFB are scored upfront (obligations and outlays) against the borrowing agency. The scoring of FFB transactions cannot be addressed through interpretation of scorekeeping rules. While agreement of the parties would be required, a legislative provision specifically permitting GSA to borrow through the FFB without upfront scoring would be required.

(c) A variation on the above proposals is to recognize future revenue streams from projects as an offset to the budget authority required under current scorekeeping rules. In other words, the acquisition cost of the asset would be scored upfront to the extent that the annual payments exceed the future stream of revenues.

(d) The oversight authorities of OMB and the Appropriations Committees and Public Works Committees would not be diminished. All projects and the financing method to be used for each project would be determined as part of the budget and authorization process. The Administration and the Congress can establish such criteria for evaluating projects and acquisition methods as they deem necessary to ensure sound real property management.

NEW CONSTRUCTION BUDGET AND THE COURTS

Question. The new construction budget the past few years has been dominated by funds for new Courthouses. Over 70 percent of this budget is for Courthouse construction. Could you briefly describe how we have gotten to this point?

Answer. A number of things have occurred, mostly in the past several years, that have triggered this

extraordinary growth in courts requirements. The most obvious cause is an increase in court cases throughout the judicial system, particularly those involving the Bankruptcy Court and the rise in drug related cases under the jurisdiction of the Federal District Court System.

In addition, several years ago, the courts revised their standards for their facilities to meet the changing needs of the judicial system. A major change significantly increases the minimum size of District, Bankruptcy, and Magistrate Courtrooms.

Also, beginning about 1990, the Administrative Office of the Courts developed and instituted the use of a computer model for forecasting the 10, 20, and 30-year requirements of each district and location for holding court in the entire court system. The results of the forecasts have been staggering. In almost every district surveyed, at least some of the existing facilities are projected to be inadequate, and major new courthouses or courthouse annexes are required. GSA has questioned the methodology of these projections.

Question. What is the concentration on new Court space doing to other space needs?

Answer. As you are aware, our capital expenditures are limited to resources available in the Federal Buildings Fund. In the past several years, the majority of available funding has been earmarked for courts projects and a few other highly specialized projects such as labs and border stations. We have had almost no money to construct general purpose office space for our client agencies.

Question. Any ideas where we go from here?

Answer. If the courts requirements continue outpacing our resources, it will be necessary to provide GSA with funding over and above that available in the Federal Buildings Fund, possibly specifically earmarked for a U.S. Courts construction program.

GOVERNMENT SPACE INVENTORY

Question. Every year there is discussion about the amount of space the Federal Government occupies. What is the current inventory of space used by the Government?

Answer. As of May 27, 1993, GSA had a total inventory of 262.7 million square feet. Of the total amount, 139.9 million was Government-owned space. The remaining amount of 122.8 million square feet was leased space.

Question. What is the current ratio of owned to leased space?

Answer. As of May 27, 1993, the ratio of Government-owned to leased space was 53 percent Government-owned to 47 percent leased space.

Question. What is GSA's idea of the optimum ratio?

Answer. A study of the Government-owned to leased ratio in October 1990 concluded that the optimum ratio was 75 percent Government-owned to 25 percent leased space. This study is currently being updated with the possibility of a revised optimum ratio based on current requirements and market conditions.

Question. Will we ever see that ratio?

Answer. Given the current budget constraints and scoring issues, the optimum ratio will probably not be achieved.

DISCUSSION PERTAINING TO THE AMOUNT OF VACANT SPACE

Question. We also continue to discuss the amount of vacant space. What is the current occupancy rate?

Answer. Based upon May 31, 1993, data, the occupancy rate is 97.3 percent. This percentage accounts for occupied space, space being prepared for occupancy, and that space which has been identified to be phased-out of the inventory. The vacant space percentage in all types of GSA-controlled space (office, storage, and special) is 2.7 percent or 7,080,908 square feet.

Question. What is the occupancy rate of owned space?

Answer. Based upon May 31, 1993, data, the occupancy rate for government-owned space is 97 percent.

Question. What is the occupancy rate of leased space?

Answer. Based upon May 31, 1993, data, the occupancy rate for leased space is 97.7 percent.

Question. How much does this empty space cost?

Answer. Based upon May 31, 1993, data, there is approximately 2,840 thousand occupiable square feet of vacant leased space. This space results in a cost of about $15.20 per occupiable square foot or a total cost of approximately $43.2 million.

Question. In a perfect world what would be the optimum occupancy rate?

Answer. In the management of a large inventory of space, such as that controlled by GSA, there will always be a certain amount of vacant space as assignments and reassignments of space are made to Federal activities, and as programmatic demand fluctuates. We believe that maintenance of a vacant space percentage range of 3 to 5 percent approaches optimum usage of the space we control. GSA's vacancy rate compares favorably with the private-sector (BOMA Survey - Building Owners and Managers Association) which currently reports a vacancy rate in major cities of 12.1 percent.

Question. Is there a better way to utilize space? Agencies are always complaining about the Rent they pay. I don't want to go into a discussion about the process and the final decision, as to what the level will be, but I would like your assessment of agency usage.

Answer. GSA continually seeks to maximize the use of its vacant available space. In accordance with current policy, we either attempt to: outlease such space; negotiate a buyout, in the case of leased facilities; or in the case of an entire Federal building for which no further GSA need is required, report it excess for disposal.

INTERNATIONAL CULTURAL AND TRADE CENTER

Question. Could you give us a brief update on construction of the International Cultural and Trade Center?

Answer. Of the $400 million that has been committed to construction contractors, $120 million worth of work has been performed. Excavation, the foundation wall, and the lowest basement slab are complete. Structural concrete work is in progress. The project is scheduled for completion in July 1966.

Question. What is the projected final cost?

Answer. Excluding construction period financing, the projected construction cost is $656 million.

Question. What is the Government's exposure?

Answer. The Government has $400 million in construction commitments, a substantial amount of which would have to be paid in the event of the termination of the project.

Question. Have the tenants been decided upon?

Answer. As a result of meetings held during the week of May 3, 1993, with OMB, AID, EPA, Customs, and congressional staff, GSA agreed to undertake an economic analysis of alternative housing plans that would meet the long-term needs of EPA, Customs, and AID. The

housing status of all Federal international and trade-related agencies was reviewed. Prospective tenant agencies were informed of this process. Based on the analysis, two housing plans were developed. The first includes the Agency for International Development(AID) and the Customs Service as primary tenants of the facility, and the second includes EPA as the sole primary tenant. A decision will be made in mid-August.

Question. What will it cost them in rent?

Answer. It is anticipated that the GSA rent charged to tenants for office space will be approximately $55 per occupiable square foot in 1996 dollars (or approximately $52 per occupiable square foot in 1993 dollars).

Question. How does that compare to current and commercial rates?

Answer. Rents for prime commercial office space on Pennsylvania Avenue average approximately $45 to $50 per occupiable square foot. Current GSA office rents for proposed tenants in un-modernized Government-owned buildings in the Central Employment Area of Washington, DC, average approximately $33 per occupiable square foot, a rate comparable to commercial rents in the Central Employment Area.

QUESTION: Voice service usage has continued to grow at a very fast pace over the last four years. The Department of Defense accounts for a large amount of this increase. Are there other trends in increased usage?

ANSWER: Long distance telecommunications services are provided by GSA through the Federal Telecommunications System 2000 (FTS2000) program. Customer demand for FTS2000 voice services resulted in a 50 percent increase from over 2.1 billion minutes of usage in Fiscal Year 1991 to over 3.2 billion minutes in Fiscal Year 1992. This growth in voice service usage was primarily due to the transition of large telecommunications requirements to the FTS2000 networks by the Internal Revenue Service (800 Service), Social Security Administration (800 Service), U.S. Postal Service and Department of Defense.

FTS2000 voice service usage is projected to increase by 12 percent from FY 1992 to FY 1993 (3.6 billion minutes). The projected growth in call minutes during this period is mainly attributable to the continued migration of the Department of Defense's telecommunications requirements to the FTS2000 networks.

While voice service usage is expected to begin stabilizing during FY 1994 at an estimated 3.7 billion call minutes, it is anticipated that non-voice services will account for an increased share of program revenue. Non-voice services include dedicated transmission service, packet switched data service, and video teleconferencing.

QUESTION: Do fax machines and cellular phones have anything to do with the increase in usage?

ANSWER: While fax machines may be a factor in explaining increased FTS2000 usage, we are unable to specifically attribute any increase to them because fax machines share voice telephone lines. Since cellular phones are most often used for local calls, we believe there has been virtually no impact on FTS2000 usage.

QUESTION: Cellular phones are convenient, but expensive. Do we know how much the Government is spending on cellular phones? Has GSA looked at usage? Are agencies effectively monitoring usage?

ANSWER: Cellular phones are offered under GSA's Information Resources Management Service (IRMS) Multiple Award Schedules (MAS) program. Our records indicate that in fiscal year 1992 the Government spent approximately $1.4 million on cellular phones (instruments) purchased through our MAS program.

Cellular phone service (usage) is not part of the telecommunication services provided by GSA through the Information Technology Fund. (Cellular phone service is provided by a commercial cellular carrier and billed directly to the customer/agency). Accordingly, we do not have any (Governmentwide) usage information.

GSA has issued, internally, general property management guidelines and procedures that cover cellular phones. GSA currently has 813 cellular phones (797 in our regional offices and 16 in Central Office). These phones are primarily in Federal Protective Service cars that are involved with physical security and law enforcement. GSA offices using cellular phones monitor their usage regularly.

CONCLUSION OF HEARINGS

Senator DECONCINI. That concludes the hearings. The subcommittee will recess and reconvene at the call of the Chair.

[Whereupon, at 11:51 a.m., Wednesday, June 23, the hearings were concluded and the subcommittee was recessed, to reconvene subject to the call of the Chair.]

NONDEPARTMENTAL WITNESSES

[CLERK'S NOTE.—The following testimonies were received by the Subcommittee on the Treasury, Postal Service, and General Government for inclusion in the record.

The subcommittee requested that public witnesses provide written testimony because, given the Senate schedule and the number of subcommittee hearings with Department witnesses, there was not enough time to schedule separate hearings for nondepartmental witnesses.]

ADMINISTRATIVE CONFERENCE OF THE UNITED STATES

STATEMENT OF BRIAN C. GRIFFIN

INTRODUCTION

My name is Brian C. Griffin and I serve as Chairman of the Administrative Conference of the United States. I submit this statement in support of the President's request for $2.314 million to undertake the Conference's mission in fiscal year 1994.

These are difficult budget times for the nation as the President and Congress work to reduce the federal deficit. To assist that effort, the President has requested a budget for the Administrative Conference for 1994 that contains no increase over 1993, even though significant inflation-related costs beyond the Conference's control are expected. The Conference fully endorses the President's action and recognizes that it must concentrate on making the most efficient use of its limited resources in the coming year. In implementing its program, the Conference will focus its energy on projects likely to help reduce federal expenditures and improve the efficiency of the administrative process throughout the government. The Conference anticipates that it will play an important role in the Administration's effort to implement the recommendations of the National Performance Review now being conducted by a Task Force under the Vice President's direction.

THE PURPOSE OF THE CONFERENCE

As the committee is aware, the Administrative Conference is a unique governmental entity. It brings together senior officials of all the major departments and agencies of government, members of the federal judiciary, and distinguished scholars and members of the private and public interest bar to fashion practical solutions to some of the most difficult or sensitive procedure and process issues affecting the national government. Its permanent staff then works in a variety of ways to ensure that these improvements are carried out. As a result, over the years, about 80 percent of the Conference's recommendations have been adopted, in whole or in part. In essence, the Conference's role is to propose and effect cures for governmental ills and perform procedural "preventive maintenance."

On swearing in the first Conference Chairman in 1968, then-President Johnson set forth the principles that dictated the Conference's creation and continue to guide its important mission:

The success of two temporary conferences—both chaired very ably by Judge Prettyman—convinced us that we needed a permanent agency for continuing review of the administrative process.

We needed a forum for the constant exchange of ideas between the agencies and the legal profession and the public.

We want the Administrative Conference to be the vehicle through which we can look at the administrative process and see how it is working and how it could be improved and how it could best serve the public interest.[1]

CONFERENCE MEMBERSHIP

The structure of the Administrative Conference is truly unique within the federal government. No other agency is similarly constituted. In fact, this unique structure underlies the "genius" of the Administrative Conference.

Created in 1964 by the Administrative Conference Act, the Conference has 101 members. It is headed by a Chairman who is appointed by the President with the advice and consent of the Senate and includes a Council of ten presidential appointees. Apart from the Chairman, all Conference members are volunteers. It has a permanent career staff of 24.

Each department or agency chooses its own representative. The caliber of the individuals who represent their agencies attests to the importance that the agencies, as well as the Administration, assign to the Conference's functions. Jack Quinn, Acting Chief of Staff and Counsel to Vice President Gore; Sally Katzen, newly appointed Administrator of the Office of Information and Regulatory Affairs at OMB; Jamie Gorelick, General Counsel of the Department of Defense, and John Leshy, Solicitor, Department of the Interior, are among those who have recently become Conference members from the Clinton Administration.

The judiciary likewise assigns distinguished jurists to participate in Conference activities. Chief Judge Stephen Breyer of the United States Court of Appeals for the First Circuit and Judge Stephen Williams of the United States Court of Appeals for the District of Columbia Circuit have been designated by Chief Justice Rehnquist as the Judicial Branch's official representatives to the Conference. Judges Breyer and Williams are prominent administrative law scholars and participate actively in the Conference's work. Justice Antonin Scalia is, of course, a former Conference chairman and, along with other distinguished jurists, serves as a Senior Fellow—in effect, an emeritus member of the Conference.

The Administrative Conference Act requires that the Conference Chairman select members from the private sector who are "members of the practicing bar, scholars in the field of administrative law or government, or others specially informed by knowledge and experience with respect to federal administrative procedure." The overall membership shifts gradually with each change in Administration because public members of the Conference serve two year staggered terms and the terms of half the members expire each June. Moreover, the Conference has a long-standing tradition of private sector membership that crosses party and philosophical lines. Among the Conference's current members from the public are:

Caryl Bernstein, Executive Vice President and General Counsel of the Federal National Mortgage Association. Ms. Bernstein is a member of the Board of Regents of Georgetown University.

Elliott Bredhoff, a partner in the law firm of Bredhoff and Kaiser. Mr. Bredhoff is Counsel to the AFL–CIO Industrial Union Department.

Ernest Gellhorn, a partner in the law firm of Jones, Day, Reavis and Pogue. Mr. Gellhorn is the former Dean of the Arizona State University Law School and the Case-Western Reserve Law School in Ohio.

Walter Gellhorn, Professor Emeritus, Columbia University. Professor Gellhorn is the Dean of administrative law scholars whose pathbreaking work as Director of the Attorney General's Committee on Administrative Procedure led to adoption of the Administrative Procedure Act.

Mark Gitenstein, a partner in the law firm of Mayer, Brown and Platt, Mr. Gitenstein is the former Chief Counsel to the Senate Judiciary Committee under Chairman Biden.

C. Boyden Gray, a partner in the law firm of Wilmer, Cutler and Pickering. Mr. Gray is former Counsel to President Bush.

Michael Hawkins, a partner in the law firm of Daughton, Hawkins, Brockelman and Guinan in Phoenix, Arizona, and former United States Attorney for the District of Arizona during the Carter Administration.

Robert Kaufman, a partner in the New York law firm of Proskauer, Rose, God and Mendelsohn. Mr. Kaufman is a former legislative aide to Senator Jacob Javits.

James C. Miller, Distinguished Fellow, Citizens For A Sound Economy. Dr. Miller was former Chairman of the Federal Trade Commission and former Director of the Office of Management and Budget.

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[1] Remarks at the Swearing In of Jerre S. Williams as Chairman, Administrative Conference of the United States, Jan. 25, 1968, [1968–69] Pub. Papers, vol. 1 at 68.

Betty Southard Murphy, a partner in the law firm of Baker & Hostetler. Ms. Murphy is the only individual to have served both as Administrator of the Wage and Hour Division of the Department of Labor and Chairman of the National Labor Relations Board.

Jonathan Rose, Associate Dean and Professor of Law, Arizona State University. Dean Rose is a former special assistant to Governor Bruce Babbitt of Arizona.

Peter Strauss, Betts Professor of Law, Columbia University. Professor Strauss is Chair of the Section on Administrative Law and Regulatory of the American Bar Association and former General Counsel of the Nuclear Regulatory Commission.

The participation of the Conference's public members allows the government to leverage a relatively small appropriation to attract considerable in-kind contribution for its program. Members from the private sector make up forty-five percent of the Conference membership. Conference bylaws also establish categories of non-voting, unpaid, volunteer membership. In 1992, non-government members donated over 1000 hours of time, attending committee meetings and plenary sessions. That does not include the substantial additional time spent reading reports, revising recommendations, and supporting other Conference activities. As a consequence, the Conference receives hundreds of thousands of dollars each year in donated services from America's leading experts in administrative law and government, making the Conference one of the "best bargains" in the federal government.[2]

THE CONFERENCE'S MISSION

The Administrative Conference advises the President, the Congress, and the federal departments and agencies, on ways to improve the fairness and efficiency of federal agencies' administrative procedures. It advises the Judicial Conference of the United States on the relationship between agency action and subsequent judicial review. A critical part of the Conference's work, although much less publicized, is its ongoing consultation with agencies to improve their administrative procedures.

Saving Money Through Inter-Agency Coordination

The Conference is directed by statute to "arrange for interchange among administrative agencies of information potentially useful in improving procedure." In furtherance of this responsibility, it collects, synthesizes, and, as necessary, creates materials for use throughout the government. It widely disseminates its research reports, alerts government officials, including all members of the Senior Executive Service, to its projects, and regularly conducts seminars and working groups on key topics of current concern in administrative law and governmental process. During 1992, over 1000 agency personnel attended 10 Conference programs. Conference staff members field requests for advice or information and devise model rules, such as those for agency implementation of the Government in the Sunshine Act and the Equal Access to Justice Act.

The Conference has historically requested funding sufficient to allow it to produce or update at least one major administrative law publication each year for use by agencies government-wide. Last year, the Conference published the second edition of the Federal Administrative Procedure Sourcebook. The Sourcebook contains the text, a short analysis, a legislative history, bibliographic references, and related Code of Federal Regulations citations, for 18 procedural statutes applicable to federal agencies. Centralized publication saved the government over $500,000.

These clearinghouse and coordination activities save the government money because agencies need not expend resources inefficiently to accomplish similar tasks independently. They also provide a mechanism for ensuring consistency from agency to agency in procedural matters affecting the public. More than half the Conference's resources are devoted to this aspect of its mission.

In the coming year, the Conference expects to assist the Administration's overall initiative to encourage greater government efficiency. The Conference is working closely with the Vice President's National Performance Review Task Force (one of our senior staff members serves as the head of one of the Task Force working groups) and is assisting the Administration's Task Force on Health Care Reform. Both task forces affirmatively solicited the Conference's expertise on numerous issues and continue to rely on it. And the Conference's singular expertise in fostering implementation will be particularly useful when the Administration moves from the planning to the implementation phase.

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[2] A current membership list is attached as Appendix A.

Saving Money By Ending Needless Litigation

Since 1990, Congress has passed four bills that have increased the Conference's coordinating responsibilities:

—Public Law 101–552 assigned the Conference the principal role in promoting and coordinating alternative means of dispute resolution (ADR) by federal agencies in an effort to reduce needless litigation costs to agencies and the private sector.

—Public Law 101–648 gave the Conference the primary leadership role in encouraging and assisting agency use of negotiated rulemaking.

—The Civil Rights Act of 1991, Public Law 102–166, provides that the Director of the Senate Office of Fair Employment Practices "may consult with the Chairman of the Administrative Conference" when establishing procedures for considering alleged violations and can appoint hearing officers "after considering any candidates who are recommended by the Chairman of the Administrative Conference" and other organizations.

—Public Law 102–403 gave the Conference a new responsibility to provide administrative law assistance to foreign governments.

Most critical for present purposes is the role Congress gave the Conference in 1990 to implement the Administrative Dispute Resolution (ADR) Act and the Negotiated Rulemaking Act. Passage of these laws represents the legislative culmination of Conference initiatives to foster less costly alternatives to traditional litigation and rulemaking, and reflects a congressional endorsement of the priority that the Conference assigns to its dispute resolution program. But passage of the new laws is not enough. Continuing coordinated effort to implement these statutes is essential if the government and the private sector are to reap the benefits of these innovative approaches. Successful implementation of the new laws can save the federal government billions of dollars of litigation costs in the years to come.

Under the ADR Act, the Conference has the principal responsibility for promoting and coordinating the government-wide effort to encourage alternative means of dispute resolution (ADR) by federal agencies in an effort to reduce needless litigation costs. Pursuant to that mandate, the Conference has undertaken an ambitious effort to work with agencies to stimulate and assist their use of ADR in settling a wide range of administrative disputes. As required by statute, we are actively assisting agencies in developing and putting into effect their statutorily-required policy statements for implementing the new law. We supervise a newly-established intergovernmental coordinating committee and four interagency working groups to help ensure uniform compliance with the statute throughout government, avoid needless duplication of effort, and tackle problems that are beyond the ken of a single department or agency.

Last year the Conference published a 75-page guidance document to assist agency officials responsible for implementing the ADR statute. Conference staff participated in agency ADR implementation programs sponsored by the FDIC, the U.S. Army, the Labor, Agriculture, and Justice Departments, the Office of Personnel Management, and the Small Agency Council, among others. We devoted considerable time and energy to providing assistance to agencies, such as the NRC, the EEOC, NSA and the U.S. Air Force, in the development of their ADR programs. In cooperation with the Society for Professionals in Dispute Resolution, we presented a day-long program for over 300 federal employees on implementing the statute. Last October, we sponsored a full day roundtable to assist agencies in finding and hiring qualified ADR neutrals. We maintain a roster of neutral evaluators, a computerized base of dispute resolution specialists, available to agencies to help resolve conflicts. To date, nearly 400 individuals or organizations have asked to be listed on the roster and we have fielded scores of requests from agencies for names of specialists.

Those segments of the private sector that are concerned about the improvement of the federal administrative process recognize the value of the Conference's work. The Conference has statutory authority to accept gifts from outside sources. Last year, Conference ADR activity was encouraged in part by a unique set of private grants from the Hewlett and Culpeper Foundations. These grants illustrate an unusual commitment of money in recognition of the value that the private sector attaches to the Conference's promotion of consensual decision making.

ADVICE AND ASSISTANCE TO CONGRESS

The Conference is especially proud of its efforts to assist Congress in the development of important legislation. We provide thorough and thoughtful analysis of difficult issues, and propose practical solutions to nettlesome problems. Upon request, we provide drafting assistance and technical advice to committees and congressional staff.

At express Congressional direction, the Conference in 1990 and 1991 conducted two major studies of process issues affecting the safety of the national air transportation system. Utilizing those studies as a starting point, Conference committees debated various process options and formulated practical recommendations for the Aviation Subcommittees in the Senate and the House. The Conference made its proposals within the one year time frame requested by those committees. These proposals to resolve some previously intractable issues led to passage of Public Law 102–345, the *FAA Civil Penalty Administrative Assessment Act of 1992,* which derived essentially from Conference Recommendation 91–8, *Adjudication of Civil Penalties Under The Federal Aviation Act.*

The Conference offers impartial advice on the cutting edge of America's social agenda. Last year, for example, we provided testimony to a Senate subcommittee on ways to address allegations of race and gender bias by administrative law judges within the Social Security program. We also offered our views to a House subcommittee on how to stem the rising litigation costs of medical malpractice cases involving the federal government. At a time when Congress was seeking to address the savings and loan crisis, the Conference was asked by the House Task Force studying the structure of the Resolution Trust Corporation and its Oversight Board to provide it with an overview of structural arrangements for regulatory oversight, highlighting the strengths and weaknesses of particular regulatory arrangements. The Conference provided the analytical framework against which the committees of Congress could thoughtfully devise a solution to the relevant problems.

CONFERENCE RECOMMENDATIONS

The Conference adopted recommendations in 1992 that run the administrative process gamut from making it easier for so-called "de minimus parties" to reach early settlements with EPA to clean up hazardous waste sites under the Superfund legislation, to facilitating enforcement of the provisions of the Fair Housing Act, to streamlining attorney fee litigation under the Equal Access to Justice Act.[3]

The interaction among senior government officials, practitioners of diverse backgrounds, and leading academic scholars, is the "genius" of the Conference's deliberative process. Conference recommendations are not "ivory tower" academic studies. Recommendations are not the product of a single consultant. Instead, consultant reports serve only as a starting point for months of extensive dialogue. Recommendations are forged in the crucible of debate, that includes receipt and careful consideration of the views of all affected interests, even those that are not officially represented on the Conference. Because Conference recommendations reflect a dialogue among knowledgeable, yet impartial, parties, they are not subject to the rigidities or institutional biases that frequently affect agency self-analysis. A remarkable feature of the Conference deliberative process is that agencies often make needed changes in their procedures voluntarily during the course of Conference evaluation, recognizing the merits of Conference proposals even before they reach fruition as formal recommendations.

Study of Administrative Adjudication.—In one of its largest projects in recent years, the Conference, at the express request of the Office of Personnel Management (OPM), undertook a comprehensive study of the federal administrative judiciary. The Conference was asked by OPM to provide "a clear delineation of the current 'landscape' of administrative adjudication," including an "analysis of the evolving role of [administrative law judges, or ALJs] and other agency adjudicators from 1946 to the present." The study documented that the use of ALJs had leveled off because agencies were reluctant to hire them and Congress had not added significantly to those agency statutes requiring the use of ALJs. Over the years, Congress has, instead, created a separate corps of non-ALJ adjudicators, with duties almost identical to those of ALJs. The Conference concluded that "the movement away from the uniformity of qualifications, procedures, and protections of independence that derives from using ALJs in appropriate situations is unfortunate."

The choice of suitable remedies was obviously controversial, especially among certain members of the ALJ community whose interests would be affected the most. After thorough study and debate that included a public hearing, the receipt of public comments, numerous committee meetings, and discussion at two plenary sessions, the Conference proposed a series of changes in the way ALJs are recruited and supervised. Noting that fewer than 6 percent of ALJs are women, while fewer than 3 percent are minorities, the Conference called for the creation of a larger pool of eligible candidates. Taking account of recent charges of race and gender bias against some ALJs, and the national movement toward enhancing accountability of judicial

[3] The full text of the Conference's recommendations is set out as Appendix B.

officers, the Conference also recommended that the current ban on any form of performance appraisal for ALJs be replaced by a system that authorized agency chief judges to conduct periodic evaluation of individual ALJ performance. The Conference noted that most states with a central corps of ALJs already provide for some form of periodic performance review and that performance evaluation systems are in effect in several Federal Circuits for making retention decisions for federal bankruptcy judges and magistrate judges. In response to concerns from the public interest bar, the Conference proposed a formal mechanism to allow the public to file complaints about ALJ conduct and performance. Ever mindful of the need to protect the special role of ALJs in the federal adjudicatory process, the Conference also recommended establishment of a system for investigating improper agency infringement of, or interference with, ALJ decisional independence.

The recommendations adopted by the Conference have spawned criticism from some individuals within the All community. However, OPM and other agencies, as well as many ALJs themselves, have praised both the report and the Conference's recommendations as providing well reasoned, scholarly, and practical solutions to an important, yet controversial, set of problems.

Study of Agency Rulemaking.—The Conference is currently in the midst of a seminal study of the federal rulemaking process. In recent years, agencies have increasingly turned to alternatives to traditional notice-and-comment rulemaking to make policy because of significant incumberances to the rulemaking process. Both external requirements and internal organizational constraints have turned the simple rulemaking technique envisioned by the Administrative Procedure Act into a long and uncertain process that is frequently simply a prelude to expensive and time-consuming litigation. Over the past six months, the Conference's Rulemaking Committee examined legislative, judicial and executive branch constraints on rulemaking, evaluated agency responses, and proposed solutions. The Conference began to address these issues at its plenary session earlier this month but did not complete its consideration. It will undertake additional study of the unresolved issues and resume its deliberations at its next plenary session.

FOREIGN ASSISTANCE

The new democracies around the world are seeking to create an administrative structure consistent with the newly emerging "rule of law" and attempting to replace their traditional administrative procedures with approaches that eliminate red tape, enhance public participation, and embrace recognized concepts of due process. The success of those efforts is essential to our national interest. Several governmental and professional groups are assisting these foreign nations in addressing "big ticket" items, such as drafting national constitutions or creating a independent judiciary. But few individuals or organizations possess the necessary expertise to provide the less glamorous technical guidance in the establishment of "nuts and bolts" administrative procedures that must necessarily undergird development of a democratic state and a market economy.

Recognizing both the pressing need for such "nuts and bolts" technical assistance, and the Conference's unique ability to provide it, Congress last October authorized the Conference to respond to requests from foreign governments for administrative law and process advice and assistance. Under the new law, any assistance initiative must be provided on a *fully reimbursable basis* and receive the concurrence of the Department of State, AID, or USIA. Last March the Conference undertook its first mission—a week-long seminar in Kiev, Ukraine, under the auspices of the U.S. Information Agency. Nearly 200 senior level Ukrainian government officials and judges attended the highly successful week-long program.

CONFERENCE PLANS FOR FISCAL RESTRAINT

The Conference has been experiencing a substantial increase in benefits charges associated with personnel payroll. When the Conference's reauthorization bill passed Congress in 1990, projected budget costs assumed civilian personnel benefits would approximate historical levels at 13 percent of personnel compensation. Based on those projections, the Conference's share of fiscal year 1994 benefits would have been under $200,000. Benefits payments are now projected to be $291,206, or nearly $100,000 more than anticipated 4 years ago. This increase is primarily associated with the higher costs to the Conference attributable to the new Federal Employee Retirement System (FERS) and the associated thrift savings matching program. Employee benefits for the Civil Service Retirement System require from 8–15 percent of salary from our appropriation while benefits for the FERS plan employees range from 21–34 percent of salary.

Due to the substantial increases projected in personnel compensation as a result of employee shifts to FERS, the Conference does not anticipate any new hiring during the upcoming fiscal year. It will eliminate its annual recruitment of a summer law clerk, saving about $9000. A number of services important to the Conference's mission will also be cut in order to reduce overall expenses. Computerized legal research will be eliminated, saving $15,000. Funds set aside for space for colloquys have been eliminated, saving $2,000. Staff training funds are being deleted, saving $6,000. Office supplies and library acquisitions are being cut $10,000. Contracts for accounting support and miscellaneous purchase orders are being cut $4,000. Scheduled equipment replacement will be deferred, saving $20,000. Parking and storage rental fees will be reduced $11,000. This will necessitate eliminating shelf copies of older Conference publications for which there is smaller demand.

CONCLUSION

In a 1985 retrospective on the work of the Conference, the distinguished D.C. Circuit Judge Carl McGowan observed: [T]he Conference has lived up to its mandate of seeking ways to improve the efficiency and fairness of the administrative process * * *. The only occasion or regret is that its work has not always attracted the wider notice and recognition it surely deserves.[4]

Judge McGowan's observations remain true. But in a period when improving the government's ability to deliver services efficiently is essential, the Conference's experience and leadership represents exceptional value for the taxpayer's dollar. The President's 1994 budget request is small, only $2.314 million. We ask the committee to approve that request in full.

[CLERK'S NOTE.—Appendix A, the membership of the Assembly of the Administrative Conference, is available for review in the subcommittee files. Appendix B can be found in the Federal Register, Vol. 57, No. 131, Wednesday, July 8, 1992, pp. 30101–30111 and Vol. 57, No. 250, Tuesday, December 29, 1992, pp. 61759–61768.]

AMERICAN HEART ASSOCIATION

STATEMENT OF HENRY MORRIS, JR., ESQ., VOLUNTEER WITH THE AMERICAN HEART ASSOCIATION NATION'S CAPITAL AFFILIATE

Mr. Chairman, I am Henry Morris, Jr., Esq., a volunteer with the American Heart Association Nation's Capital Affiliate and the AHA national office. I am a trustee and chair-elect with the local affiliate. I am also a member of the AHA National Public Affairs Policy Committee and trustee-elect with the national office. I am pleased to have this opportunity to provide you with the AHA's recommendations regarding the fiscal year 1994 funding of the revenue forgone postal appropriations.

The American Heart Association urges the appropriations committee to make funding for the U.S. Postal Service revenue forgone appropriation a high priority. The AHA and others in the nonprofit community would prefer full funding for the revenue forgone appropriation at $612.5 million. However, in these fiscally tight times we realize that this is not viable. The AHA endorses the creation of a permanent solution for revenue forgone, a solution that would permanently reduce the need for large revenue forgone outlays from this appropriations committee.

Every 34 seconds cardiovascular diseases, including heart attack and stroke, will claim an American life. Despite major progress, cardiovascular diseases remain the number one killer in the United States and in Washington, D.C. In fact, cardiovascular diseases cause almost as many deaths as AIDS, cancer, and all other causes of death combined, at an estimated cost in 1993 of $117.4 billion in medical expenses and lost productivity.

As you can see from these figures, cardiovascular diseases take an enormous toll both financially and emotionally on our communities. The American Heart Association's goal is to reduce disability and death from heart disease, stroke, and related circulation disorders. Preferred-rate mail enables the AHA and its 56 affiliates nationwide to reach that goal, by allowing us to devote more of our limited resources to vital cardiovascular research and important community and educational programs.

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[4] McGowan, *The Administrative Conference: Guardian of the Regulatory Process,* 53 Geo. Wash. L. Rev. 67, 84 (1985).

The organization's primary areas of emphasis are cardiovascular research, cardiovascular education, and revenue generation. It is in these areas that the AHA invests its resources. Over the years AHA-funded research has yielded many important discoveries, such as CPR, life-extending drugs, bypass surgery, and other surgical techniques. Total AHA expenses for research in 1991–1992 reached $101.3 million. Almost half of the total came from the association's 56 affiliates, which have doubled their research funding efforts since 1985. The AHA is second to only the federally funded National Heart, Lung and Blood Institute in the amount of money devoted to cardiovascular research. Since 1949 the AHA has contributed more than $1 billion to cardiovascular research.

The AHA is continually in search of funds to support its research and educational and community service programs. One of our major sources of revenue is our direct mail fundraising campaign. However, the direct mail campaign goes beyond the solicitation of funds and includes valuable information to help Americans and their families fight cardiovascular diseases. The mailings allow the AHA affiliates and the national office to include information that might not be readily available to many Americans. Mailings include the major risk factors for heart attack and stroke, a heart-healthy dinner menu, or the news of an upcoming AHA community event. This avenue of information allows the AHA to use its funds to the fullest extent to raise the public's awareness about the seriousness of cardiovascular diseases.

In 1992 alone the AHA generated $17.5 million from the direct mail program. The direct mail program is a big fundraiser for the AHA. It also is directly affected by any rise in the nonprofit postal rate. If the nonprofit postal rates increase by 40 percent, the AHA stands to lose 131,000 new donors in the next year. This translates into a loss of well over $1 million in one year for the association. This is over $1 million less to attain our goals, and also 131,000 donors are completely unavailable to us. The purpose of acquisition is to provide long-term donors and income for the association. The 131,000 donors that we would lose as a result of an increased postal cost would mean a loss of approximately $850,000 for the first year of renewal. Over five years, that loss would grow to approximately $4.5 million. This one scenario illustrates the huge potential loss to cardiovascular research that would result from such a rate increase. However, let me stress that these figures only represent the revenue generated from the direct mail program at the national level and do not reflect losses of similar proportions at the local affiliate level.

Let me explain the ramifications for a local affiliate. The Maryland affiliate works to reduce disability and death from cardiovascular diseases and stroke in the state of Maryland. The Maryland Affiliate uses the mail to target donors and raise revenue. If the nonprofit postage rate increases by 40 percent then the affiliate would have to cut donor acquisition mailings. This translates into a loss of $37,000 in one year and a loss of 2,800 new donors for the Maryland Affiliate. Over five years, that loss would grow to approximately $95,000. In five to seven years this loss could amount to approximately half a million dollars. The average research grant in the affiliate is $22,000 and current affiliate income is able to fund only 70 percent of the approved research grants, therefore, the decrease in revenue due to increased postage rates will be devastating to heart advances in the future.

An increase in the postal rate will also have a negative effect on other campaigns like the Maryland Affiliate Residential campaign. 26,000 volunteers call on their neighbors for contributions and also distribute important life-saving information to over 300,000 families. Many of the materials are sent to the volunteers through the mail at the nonprofit rate. A 40 percent increase in postage would increase the cost of the residential effort by more than 20 percent and no additional dollars would be raised to offset this cost.

The increase in postage costs for the affiliate would increase the expense to reach Basic and Advanced Life Support providers with updated information, provide educational materials to health care providers and educators, and promote educational conferences for registered nurses, school health providers and others in the allied health fields.

The AHA national headquarters also depends on the reduced rate postage to mail AHA scientific publications, council mailings, and the promotions and preliminary programs promoting AHA's Annual Scientific Sessions, the largest cardiovascular meeting in the world. Last year's Scientific Sessions unveiled a study that suggested women's heart attacks are treated differently from men's. The news and information from the sessions are still generating interest. The AHA scientific journals are mailed to a restricted market, mainly physicians, researchers, and educational facilities. Therefore, an increase in the postage cost could not be allocated among a significantly larger audience. The cost for the journal would rise, possibly eliminating the journal's availability to medical or research libraries or institutions, many

of which have tight budget restrictions of their own. This important educational information would become unavailable to their patrons.

Another issue to take into consideration is that the AHA and its affiliates have already calculated their budgets for this year. The national center has already calculated a slight increase in the postal rate, but an increase of 40 percent would mean $157,057 in unbudgeted funds. Without protection from those postage increases, the AHA stands to lose this money. To illustrate what this money means to the AHA per year let me translate it into three scenarios. $157,000 equals approximately:

—Eleven Medical Student Research Fellowships which encourage medical students to train full-time in research for one or more years before they graduate. Many students would not have the opportunity to choose the research field as a career without these awards.

OR

—Four grant-in-aid projects related to the cardiovascular field or to a related fundamental problem.

OR

—Three Clinician-Scientist Awards which encourages promising clinically trained physicians to choose careers in investigative science.

Preferred-rate mail enables the AHA and its 56 affiliates to devote more limited resources to vital cardiovascular research and important community and educational programs. A further increase in the U.S. postal rates could undermine these programs, resulting in an increase in the public's risk of death and disability from cardiovascular diseases.

Thank you, Mr. Chairman and members of the subcommittee.

STATEMENT OF HON. JOHN CONYERS, JR., U.S. REPRESENTATIVE FROM MICHIGAN

Mr. Chairman, and Members of the Subcommittee, it is indeed a pleasure to appear before you today to discuss a major success story in Federal operations—the FTS 2000 government-wide telecommunications program. FTS 2000 Provides exceptional state-of-the-art telecommunication service to millions of Federal employees, and has annually saved the taxpayers hundreds of millions of dollars over the outdated government owned and operated system it replaced.

I am proud to say that Congress deserves much of the credit for this success. We have consistently provided clear policy guidance, direction, and leadership throughout all phases of this program, and we have followed-up with exhaustive oversight to make certain that the best service available is delivered at the lowest possible costs.

There is no question that many individuals have worked countless hours to make this program a success. Our distinguished colleague, Chairman Jack Brooks, played a crucial leadership role in structuring the FTS 2000 program during its formative years. Almost single-handedly he ensured that the program was based on the principles of fairness and competition.

Likewise, Members of this Subcommittee and the full House Appropriations Committee deserve enormous credit for bringing stability to this program by enacting in law the policy of "mandatory use." Through this long-standing policy, Congress has demonstrated its strong commitment to good government and ensured that the Government's massive buying power is effectively used to save scarce tax dollars.

On behalf of the Committee on Government Operations, I strongly urge my colleagues on this Subcommittee to help guarantee the continued success of this model program by including a mandatory-use provision in this year's Treasury, Postal Service, and General Government Appropriation bill, as President Clinton has requested.

Mr. Chairman, the Clinton Administration is committed to using information and telecommunications technology to improve government operations and the delivery of services to our citizens. Without question, FTS 2000 is a sterling example of what can be accomplished when government and industry join forces to solve government problems.

Briefly, let me highlight some of the major accomplishments of the program:

—GSA completed the transition from the obsolete and costly FTS system to the state-of-the-art FTS 2000 networks in record time—18 months ahead of schedule—saving the taxpayers nearly $144 million.

—By the end of the fourth year of the contract, GSA estimated that FTS 2000 had saved more than $540 million over the old FTS system, and that it will save nearly $3 billion over the life of the contract;

—Unlike the cost overruns experienced in many other Federal programs, FTS 2000 prices have plummeted since contract award in 1988—the cost of a one minute phone call has been slashed more than 50 percent from 18 cents to 8 cents;
—The FTS 2000 contract price cap provisions will ensure that prices stay at or below the best available commercial rates in the future; and,
—Both FTS 2000 vendors have done a remarkable job of subcontracting FTS 2000 work to small disadvantaged businesses—one vendor has given more than 40 percent of its entire subcontracting work to disadvantaged firms, and both have exceeded their small disadvantaged business subcontracting goals.

Despite these many accomplishments, we continue to hear complaints from a few very vocal critics of the program. Clearly, opponents of FTS 2000—primarily vendors that lost or chose not to bid on the initial FTS competition—have spent a small fortune trying to dismantle this program by ending the policy of mandatory use. After exhaustive oversight of the program, the Committee on Government Operations has come down decisively in support of the FTS 2000 program and the continuation of the mandatory use policy. To do otherwise, we concluded, would be irresponsible and a disservice to the taxpayers.

You may hear that mandatory-use provisions are not needed because GSA already has the authority to require agencies to use the system. Unfortunately, the political reality is that the GSA Administrator cannot win in a showdown with the Secretary of Defense or any other Cabinet-level Department Secretary. Political infighting, while childish, is terribly costly for the taxpayers. Congress' enactment of mandatory-use has ensured that such foolishness does not occur, and has brought badly needed stability to this program. To throw all of this away simply because of misinformation, disinterest, or formidable lobbying pressure, would be unconscionable.

As you know, the FTS 2000 program is the largest civilian Federal contract ever awarded. The FTS 2000 program also enjoys the distinction of being perhaps the most closely monitored civilian program in history. The General Services Administration has dedicated an entire staff office to overseeing this contract, the General Accounting Office has written no less than 10 reports on the program at the request of Congress, and Committees in both Chambers have held numerous oversight hearings to ensure that any problems with the program are promptly resolved.

In closing, Mr. Chairman, I am proud to say that my Committee has watched the FTS 2000 program very closely since its inception. Based on this extensive work, the Committee recently published a report entitled, *FTS 2000: Management Reforms and Intensive Congressional Oversight Ensure Savings of $500 Million For The Taxpayers.* This report provides an objective and comprehensive assessment of the FTS 2000 program. It lays out the evolution of the program, the early problems, the extensive oversight this program has received, corrective actions that GSA has taken, and the many benefits the FTS 2000 program provides. I believe you will find it invaluable as your deliberations proceed and I ask that you enter the report into today's hearing record, along with my written statement.

Mr. Chairman, thank you for giving me the opportunity to appear before you on this important matter.

Rhode Island Hospital

Statement of William Kreykes, President

Thank you, Mr. Chairman, for providing me the opportunity to come before you and your Subcommittee today. Mr. Chairman, members of the Subcommittee, I am Bill Kreykes, President of the Rhode Island Hospital, in Providence, Rhode Island.

As a hospital administrator, I have become increasingly conscious of the spiraling costs of health care in America. As you know, it is estimated that Americans spent $650 billion—more than 12 percent of the nation's gross national product—on health care in 1991. In 1992, just one year later, that figure had grown to $832 billion—one-seventh of economic activity in the United States. This dramatic increase in expenditures demonstrates the fact that, since 1970, health care expenditures have risen 70 percent faster than the GNP, and health care costs have risen 60 percent faster than inflation. According to the Office of Management and Budget, health care spending could reach $1.6 trillion—17 percent of GNP—by the year 2000.

Despite the remarkably high rate of growth in health care spending in this country, an alarming number of Americans are not receiving adequate medical care. Currently, an estimated 34 to 37 million Americans—about 15 percent of our population—are uninsured and unable to gain access to basic health care benefits. In ad-

dition, as the result of increasingly high costs and stringent eligibility requirements, 100,000 people lose their health insurance coverage every month.

The sharp increase in health care spending, and the less than satisfactory return on that investment, are important Federal issues, not only because Americans are beginning to express their concerns about the current health care system at the voting booth, but also because, through Medicare and Medicaid, the Federal Government currently pays approximately 30 percent of all health care bills.

I know that this body has recognized the need for significant reforms in the nation's health care system, and that hearings currently are under way to evaluate the various problems that have been identified in the current system, as well as the broad array of proposals to address those problems. Additionally, I am pleased that President Clinton has acknowledged the importance of the issue by creating the White House Task Force on Health Care Reform and appointing Hillary Rodham Clinton as its chair. I believe that Mrs. Clinton, and the other members of the Task Force, have their work cut out for them, and I wish them the best of luck in designing a health care reform proposal that addresses the three key elements of the debate—cost, quality, and access—in a manner that is acceptable to the public, and the Congress.

We at Rhode Island Hospital recognize that the issues under consideration by the Task Force and the Congress are highly complex, and that resolving them will surely take a considerable amount of time. In the meanwhile, we believe that experiments in the delivery of health care—particularly experiments in health care cost containment—will foster progress, and therefore should be undertaken and supported by the Federal Government. These small-scale projects, when successful, can demonstrate to wider populations which of the many proposed reforms will work on a larger, or perhaps even universal, scale. We at Rhode Island Hospital are proposing, in partnership with the Women & Infants Hospital and with the assistance of the Federal Government, to undertake just this type of health care cost containment demonstration project.

In designing this demonstration project, we began by carefully reexamining the basic assumptions of health facility design and the traditional methods of care provision, seeking new methods to deliver care and new means for containing costs. After completing this reevaluation, we began to explore in earnest innovative, cost-effective alternatives to the construction of traditional hospital beds, from which patients receive traditional medical care.

The outcome of this intensive analysis is our decision to construct the Rhode Island Hospital/Women & Infants Cooperative Care Demonstration Program.

The centerpiece of the Cooperative Care Demonstration Program will be the large scale implementation of a novel method of health care delivery known as "cooperative care." In the Cooperative Care Center, patients and their "care partners," who are usually spouses or other family members, will assume a much greater responsibility for patient care both in the hospital and following discharge than they would in a traditional hospital setting.

To facilitate this behavior among patients and their care partners, patient rooms will be designed as hotel-like environments and will contain accommodations for both the patient and their care partner. Since patient rooms and treatment areas will be located on different floors, the physical separation of the patient rooms and treatment areas will allow patients and care partners to take on greater roles in the delivery of health care, leaving health care professionals free to focus their activities on conducting complicated or specialized treatment procedures, or training new care partners.

As a result, both capital and operating costs are reduced. In fact, we anticipate that the costs of hospital bed construction in the Cooperative Care Center will be 30 percent lower than they would be in a traditional hospital facility. This savings is due primarily to the fact that patient floors will be made up of hotel-like rooms that will contain very limited amounts of expensive medical equipment, since this equipment will be concentrated on treatment floors, where it will be used in an efficient and cost-effective manner.

In addition, we estimate that operating costs in the Cooperative Care Center will be 20 to 30 percent lower than they are for traditional inpatient stays, due largely to the lower staff-to-patient ratios possible under the cooperative care system.

Billions of dollars have been spent over the last several decades on hospital facilities that perpetuate unnecessary, and expensive, design assumptions. We believe that through our demonstration program we will show hospitals across the nation that alternative, more cost-effective design models also exist for new hospital buildings.

At the Rhode Island and Women & Infants Hospitals, we believe a real demonstration of the cooperative care model, with quantifiable cost savings analyses and

built-in mechanisms to ease replication of a successful project, is long overdue. We are committed to the cooperative care concept and feel strongly that it has the potential to demonstrate significant savings in the delivery of both pediatric and adult care.

For this reason, we are requesting that the Federal Government provide some support for the project. The total funding requirement of the project—including $50 million for construction of the Hasbro Children's Hospital, where many of the elements of the cooperative care setting will be tested in a pediatric setting, and $13 million for the Cooperative Care Center itself—is $63 million. Of that amount, we are hopeful that the Federal government will provide $10 million, less than 20 percent of the total, over the next two fiscal years.

Thank you for your consideration of this request.

STATEMENT OF THE FDA COUNCIL

Mr. Chairman and Distinguished Members: The FDA Council wishes to thank you for the opportunity to submit for the record our testimony on the facility needs of the Food and Drug Administration (FDA).

We also thank the Committee for its past support for a consolidated FDA facility. Your continued leadership in this issue will guarantee a safe, efficient and modern facility for FDA personnel in the foreseeable future.

The FDA Council is a broad base coalition of health advocacy groups, health professional groups, consumers, regulated industry and researchers, that have come together for one purpose—strengthening the infrastructure of the FDA. This diverse group of non-traditional allies all have something to gain from a strong and healthy FDA—quick approval of safe and effective life saving technologies, healthy and unadulterated food products, and safe, untainted cosmetics.

The FDA Council recommends that Congress fund the consolidated facilities effort at the $200 million level for fiscal year 1994 and complete Phase II of construction. This will ensure that plans submitted to the House and Senate Appropriation Committees will stay on course and facilitate improved regulation and product review through consolidation of the FDA headquarters.

The FDA that plays such an enormous role in protecting the health and welfare of our nation and regulates one fourth of every dollar we spend, deserves decent working conditions.

Currently, the FDA is located in some 32 buildings in 11 geographical locations around the Washington DC area. Many new and up-coming scientific discoveries are "combination" products—for example a medical device and a drug. Consolidation of the FDA will be critically important to get the fruits of research into the hands of consumers in a timely fashion. Some of the reasons why are:

—A 1989 FDA study concluded that because of the fragmentation of their facilities—"reviews of pre-market applications for medical devices, drugs, biologics and food additives took longer and were of lower quality." This situation will only get worse as FDA reviewers try to carry out their mission.

—1989 GAO Report stated that "FDA laboratories continue [first identified in 1976] to have serious problems with electrical, heating and cooling and waste disposal systems."

—Building 8, which is situated next door to the Department of Health and Human Services in downtown Washington, D.C., has air intake vents next to three exhaust outlets for the incinerator, chemical and research waste vents. This toxic air is simply re-routed through the building.

—In 1980, two of FDA's Center for Food Safety and Applied Nutrition laboratories failed a FDA "Good Laboratory Practices" inspection. Two of these labs were closed, the others remain open.

—In 1988, a GSA study of CFSAN estimated that "$84 million would be needed to properly renovate the Center's main laboratory facility." Sadly, the renovation has never started.

—FDA's aquaculture research laboratory is in a converted swine barn built in the mid 1930's.

In addition, in the past few years, some 19 new laws have been passed giving the FDA more responsibility. Some of these new laws are: Nutrition Labeling and Education Act of 1990, Safe Medical Devices Act of 1990, CLIA 88, Generic Drug Enforcement Act, Prescription Drug Monitoring Act, and Mammography Quality Standards Act.

How can we expect the Agency to properly regulate and rapidly review product applications with overcrowded working conditions and with equipment that is obsolete and has gone well beyond the replacement stage?

How can we expect FDA scientists to do their job properly when some 31 percent of its scientific laboratory equipment should have been replaced in 1990?

How can we expect Ph.D.s and M.D.s to stay at the Agency as desperately needed product reviewers when they are cramped in small offices, surrounded by thousands of pages of New Drug Applications because they don't have the computer equipment to store the data?

As you know, the Congress committed itself in the fiscal year 1993 Treasury, Postal Service, General Government Subcommittee report to continue funding for the facilities consolidation effort in fiscal year 1994 and to begin spending the design and engineering money initially appropriated in fiscal year 1992. Plans are progressing for the purchase of land for the new sites, to begin environmental impact studies, and determine construction costs in 1993. At the time of this testimony, the FDA's request for the revised consolidation (the plans are now to increase the amount of land purchased in Montgomery County to 400 acres in addition to land being purchased in Prince George's County) has been signed off by the Secretary at the Department of Health and Human Services. The next step is that DHHS will meet with the GSA and OMB.

The FDA is one of the oldest consumer protection agencies in the world. It has an awesome responsibility. This agency alone regulates over $960 billion worth of products, yet its budget is approximately 1/10 of 1 percent of this amount. Considering this country is coming out of a severe recession and is undergoing a drastic change from a cold war economy to a global economy, it is important that FDA's infrastructure is sound so that it can respond quickly and effectively to its many mandates. Too much of our country's productive power and international trade depends on a healthy and vibrant FDA for it not to be.

Rochester Institute of Technology

Statement of Albert Simone, Ph.D., President

Mr. Chairman, thank you for providing me the opportunity to submit testimony to the Subcommittee for inclusion in the hearing record.

I would like to begin by thanking you and your colleagues for your support for our proposal to establish a Center for Integrated Manufacturing Studies at the Rochester Institute of Technology. Your Subcommittee appropriated a total of $3.25 million for the center in fiscal years 1990 and 1991. We have worked in close cooperation with the General Services Administration to begin utilizing these funds for a number of pre-construction activities.

Unfortunately, in the extremely restrictive budgetary environment of the past two fiscal years, your Subcommittee was unable to provide us with any additional funds to support this project. During that time, we aggressively pursued funding support from a number of other sources, and were successful in securing funds through several different avenues, including over $10 million from the State of New York for construction and related activities, a $3 million grant from the U.S. Department of Defense, and almost $11 million in cash and in-kind contributions from a number of major U.S. corporations. We are here today to request that your Subcommittee consider providing a final contribution of $5.75 million in Federal funds, which would allow us to complete the development of the Center and leverage additional funds from industry.

I would like to take a moment to bring you up to date on the project. As you know, the center, which we call CIMS, will integrate RIT's nationally recognized programs in a wide range of technological disciplines and focus them on the development of new manufacturing methodologies and their rapid deployment to the private sector and the Federal Government.

I am sure you are aware that over 85 percent of the current United States trade deficit can be assigned to the decline in international competitiveness in the nation's manufacturing industries, and that employment in the manufacturing sector has been declining steadily for the past several years. We at RIT believe that the development and implementation of proven manufacturing technologies with immediate applications to industry and improved methods of efficiently disseminating those technologies to the private sector is critical to U.S. manufacturing productivity, and to U.S. economic competitiveness as a whole.

The 165,000 square-foot CIMS facility will be a prototype manufacturing laboratory facility for the development, design, and testing of new manufacturing systems. The center will house five manufacturing bays in imaging, electronics, printing and publishing, mechatronics, and advanced materials, surrounded by state-of-the-art classrooms and laboratories. In line with the center's philosophy and objectives, re-

search conducted in those bays will emphasize an integrated, holistic approach to manufacturing which considers each phase of the manufacturing process—design, engineering, and production—from the outset, eliminating the lapses in communication and duplication of effort that often result from traditional vertical design models.

CIMS will assist small and medium sized companies, in particular, by providing access to a real-time production environment to test, adapt, and adopt new manufacturing techniques and experiment with new ways to more efficiently manage existing technologies toward incorporating production and process improvements.

RIT's unique relationship with industry will allow the innovative manufacturing methodologies developed at CIMS to be rapidly transferred to the factory floor, where they will enhance the productivity and competitiveness of U.S. companies and help reverse the "invented here, made elsewhere" syndrome from which American industry currently suffers.

PROGRAMMATIC ACTIVITIES

CIMS faculty and students are currently applying the CIMS philosophy to a number of projects in partnership with area manufacturers as well as other universities and colleges. Last year in our testimony before this Subcommittee, we discussed a project underway with Eastman Kodak Company which was exploring means of reducing product cycle time. The first phase of that project has been completed, resulting in 56 separate recommendations developed jointly by a team of CIMS faculty, undergraduate and graduate students and Kodak employees.

The project has resulted in measurable accomplishments, in terms of improvements in the manufacturing process, product design procedures, and set-up time reduction. In addition, the project team successfully determined the information and material flow using the IDEF methodology, originally developed by the U.S. Air Force, for use in the manufacturing setting. The success of this project has demonstrated a new paradigm for university/industry collaboration and technology transfer, and follow-on projects are currently being developed.

Similarly, corporate contributions have been used to develop a computer-assisted manufacturing cell and CAD/CAM CNC system. Other ongoing projects include the development of an electronic data interchange system with the support from and in collaboration with IBM Corporation, and the implementation of an FCIM (Flexible Computer Integrated Manufacturing Program) in conjunction with area metal fabrication industries. This project involves surveying the technology needs of companies and providing guidance as needed in such areas as technical assistance, customer-supplier interface, and total quality management. Other local corporations have jumped on board with equal enthusiasm in support of the CIMS project, as evidenced by Rochester Gas & Electric's corporate commitment of $1 million in-kind and service involving a state-of-the-art fuel cell.

We are also working with other universities to enable companies to better utilize new as well as proven technologies. A team of CIMS faculty, for example, is working with the University of Rochester's Center for Optics Manufacturing to help implement computer integrated manufacturing in the optics industry and to develop the tools to fully utilize the new OPTICAM system being developed as the state-of-the-art in the industry.

Finally, CIMS also has entered into a partnership with the Cornell University Theory Center. A new "Smart Node" on the RIT campus, connected to the supercomputer at Cornell, further broadens the horizons for CIMS research activities and technology transfer.

DESIGN ACTIVITIES

During fiscal years 1990 and 1991, we used a combination of federal, state, private, and institutional funds to begin design and engineering for the center. The site location has been completed and the soil tested and affirmed as satisfactory. The building is being carefully designed in consultation with industry, as well as RIT staff and faculty, using information we have gathered from other institutions and manufacturing organizations.

In addition to what will go on inside the building which will contribute greatly to economic competitiveness, we believe that another fundamental reason for a Federal contribution through the public buildings authority of the General Services Administration is the building's unique design. We believe that the five-bay design of the CIMS center can be a model for future Federal and university applied research and technology transfer facilities.

You will recall that the total cost of building and equipping the Center is approximately $33.6 million. It is our continued hope that the Federal contribution to this

project will total $12 million, just slightly more than one-third of the cost of the facility. A total of $6.25 million in Federal grants has been provided for the center to date.

We already have leveraged the Federal contribution with grants from the State of New York totaling more than $10 million, as well as support from many of the nation's largest manufacturers, including the Eastman Kodak Company, which has pledged $5 million in cash and in-kind equipment contributions, and the IBM Corporation, which has committed $4.3 million in computer hardware and software.

It is our hope that the Subcommittee will provide a final allocation of funds in the amount of $5.75 million—the remainder of the requested Federal share—in fiscal year 1994. Those funds, combined with our state and private dollar matches, will allow us to move forward to the construction phase of this project immediately.

Thank you again for your continuing support of this important project.

Mount Sinai Medical Center of Greater Miami

Statement of Fred D. Hirt, President

Mr. Chairman, and members of the Subcommittee, thank you very much for the opportunity to submit testimony for the record on the Mount Sinai Medical Center of Greater Miami's Demonstration Project to Improve Surgical and Emergency Outcomes for the Elderly.

I would first like to express my deep appreciation for the support that this Subcommittee provided for the Demonstration Project—the first of its kind in the country—at Mount Sinai Medical Center in the fiscal year 1991 Treasury, Postal Service, and General Government Appropriation Act. Although many of you are already familiar with the project, I would like to provide a brief description of it for those Members who are new to the Subcommittee, bring you up to date on the progress we have made thus far, and request your support for the next phase of the demonstration project.

BRIEF OVERVIEW OF THE PROJECT/REQUEST FOR FEDERAL SUPPORT

Mount Sinai Medical Center of Greater Miami will demonstrate how medical risks associated with surgical operations on the elderly and emergency department procedures on the elderly can be minimized. With one third of all operations performed in this country on the elderly, and an increasing number of elderly using the nation's emergency rooms, the results will have national implications.

While the population continues to age, the elderly will continue to utilize a disproportionate amount of the nation's health care services. For example, the National Center for Health Statistics estimates for 1990 indicate that approximately 13 million surgical procedures were performed on those people aged 65 years or older—one-third of the total operations performed. Also, surgical rates on patients 90 years of age and older have increased nearly fivefold over the past ten years.

With the $1.75 million received in the Treasury, Postal Service, and General Government Appropriations bill for fiscal year 1991, Mount Sinai has completed the planning and design activities for the component of the project designed to minimize the medical risks associated with surgical operations on the aged. The surgical tower will house 16 state-of-the-art operating rooms for the elderly, utilizing the latest in design configuration and specialized surgical procedures, two 12-bed surgical intensive care units and operating room support services. Three catheterization laboratories in near proximity to the proposed surgical tower will enhance the operations performed on the elderly by providing the full range of cardiac catheterization procedures, which incorporate innovative techniques, and advanced technological equipment, and directly complement the cardiac surgery program in the new operating room tower.

As our project moved forward, however, it became apparent that one major component of our plan to improved medical outcomes for the elderly needed to be addressed: the emergency department. With an increasing number of elderly using the emergency department, Mount Sinai recognized that it is often the point of entrance for an older patient who begins their stay at Mount Sinai. A January 1993 report by the General Accounting Office cites a dramatic increase in emergency department caseloads from 84 million in 1985 to 99.6 million in 1990. One of the most common factors cited by hospitals contributing to this increase, was the elderly's growing use of emergency departments.

Similarly, there is little understanding of the special medical, emotional and psychological needs of the elderly in an emergency department setting. A recent study published in *Social Work in Health Care,* examined the elderly's increased reliance

on emergency rooms for services traditionally provided by community mental and health services.[1] The study concluded that there is a pressing need to recognize, both in terms of coordination and cost analysis, that emergency departments play an important role in the access of primary care and the coordination of services for older people for both medical and psychological problems.

Therefore, Mount Sinai has modified its demonstration project to conduct actual demonstrations and research on all four phases of an elderly patient's stay: emergency department, pre-operative, operative, and post-operative. By focusing the demonstration project on each phase of a patient's stay at Mount Sinai, Mount Sinai will ensure that the demonstration project is comprehensive and thorough.

To address this issue, Mount Sinai will renovate the emergency department utilizing advanced architectural designs and procedures that take into account the emotional and psychological needs of the elderly patient. Although many emergency departments are compartmentalized and self-contained, Mount Sinai's emergency department will be designed to create an atmosphere of spaciousness and openness to enhance a patient's sense of emotional and psychological well-being. Moreover, Mount Sinai recognizes that emergency rooms play an important role in the offering of primary care and the coordination of medical and psychological problems, and will thus offer comprehensive mental health, social, and medical emergency services to its elderly patients. Finally, the emergency department will contain a special cardiac services unit that will consist of 8–10 emergency beds, state-of-the-art cardiac equipment, and specially trained nurses, so its cardiac patients can be appropriately cared for and monitored.

We are convinced that our initiative to improve the surgical and emergency outcomes of the elderly is both a timely and innovative one. An integral part of the future success of the demonstration project will be the establishment of a new operating room tower and a renovated emergency department. The operating tower and emergency tower will offer specialized services for the elderly, and will work in conjunction with each other to better integrate the full range of medical services offered to the elderly at Mount Sinai. Additionally a comparison study will be conducted, which will use retrospective data collected from patients who have been operated on since 1988, to assess the differences in surgical outcomes. The research plan will include specific measurements and baseline data with which to compare improvements, and the results of this study will be published and available for use nationally.

To move the construction phase of the emergency department and operating room tower forward, Mount Sinai is able to spend $10 million in fiscal year 1994. Because we are sensitive to the fiscal limitations of the subcommittee, we would request the maximum amount available. Mount Sinai will contribute the remaining $12 million through private contributions.

PROGRESS MADE WITH FISCAL YEAR 1991 GRANT

A. *Construction-Related Accomplishments.*—The architectural and design planning for the operating room tower were recently completed, financed in part, by the Federal funds appropriated in 1992. The emergency department design development plans and construction documents are complete. Completion of administrative preliminary review by the Florida Agency For Health Care Administration (AHCA) and professional review of plans and layout drawings was accomplished by December 1992.

B. *Engineering.*—A preliminary analysis of structural requirements for proposed building has been completed and a study of impact of traffic circulation during and after construction has been initiated. Similarly, planning for construction logistics (i.e. staging area, parking, etc.) is underway.

C. *Equipment.*—A major piece of equipment has been purchased, on a preliminary basis, located in our cardiac catheterization laboratory, which is proximate to the surgical tower, to enhance the operations performed on the elderly by providing the full range of cardiac catheterization procedures and directly complement the cardiac surgery program in the new operating room tower.

D. *Design.*—An analysis of historical (back to 1987) inpatient and outpatient surgery activity at Mount Sinai has been completed. Projections have been completed to forecast operating room volume at Mount Sinai through 1994 and numerous analyses have been conducted regarding economies of scale that may be gained through centralizing inpatient and outpatient surgery. Areas of study include staffing, supplies/inventory, scheduling, billing, and patient processing.

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[1] McCoy, Kipp, and Ahern, "Reducing Older Patients' Reliance on the Emergency Department", *Social Work In Health Care,* 1992.

E. *Actual Research-Related Accomplishments.*—Mount Sinai has defined the principle and subordinate objectives and the preliminary methodology of the project and has developed a data base of operating room procedures conducted on the elderly within the institution.

F. *Planned Schedule of Research-Related Accomplishments for the Project.*—Recruitment of nurse researcher and contract with a statistician for preliminary analysis of historical data for operating room procedures to be used as comparison base have been completed. Additionally, Mount Sinai has developed a formal methodology design and research plan.

ROLE OF THE FEDERAL GOVERNMENT IN HEALTH CARE

We believe the Federal government has a pervasive role in the medical care and treatment of the elderly. This role includes research, teaching and training, health care delivery and establishing standards. One place where the Federal government helps establish standards is in the area of construction criteria. These standards—which are specifically outlined in the Uniform Accessibility Standards (UFAS) and include standards for medical facilities—were developed by the General Services Administration (GSA), the Department of Housing and Urban Development (HUD), the Department of Defense (DOD), and the United States Postal Office for Federal and Federally-funded buildings.

So that these standards become current, however, the Federal government and the health industry's standards need to be modified in the critical area of health care facilities for the elderly. Specific design criteria should therefore be developed by GSA to be used as a guide for architects and engineers who are planning and designing, respectively, health care facilities, including operating rooms and emergency rooms, to ensure that they are built to increase the successful medical procedures performed on the elderly.

GSA can play a critical role in supporting this demonstration project by amending the architectural regulations (Uniform Federal Accessibility Standards) which establish requirements for Federal and Federally-funded buildings.

Mount Sinai's Demonstration Project to improve surgical and emergency outcomes for the elderly will assist GSA in determining appropriate standards and criteria for treatment facilities and operating rooms for the elderly.

MOUNT SINAI MEDICAL CENTER OF GREATER MIAMI'S EXPERTISE, EXPERIENCE, AND IDEAL LOCATION

Over fifty years of experience has provided Mount Sinai Medical Center with the medical expertise necessary to serve as a learning laboratory for the nation by conducting actual demonstrations and extensive research on how to minimize the medical risks associated with surgical operations performed on the elderly.

A 707 bed teaching hospital affiliated with the University of Miami School of Medicine, Mount Sinai is the largest not-for-profit hospital in South Florida. Mount Sinai provides an extensive range of medical and surgical specialty services in both inpatient and outpatient settings, as well as numerous community outreach programs. Each year, Mount Sinai provides care to more than 18,000 inpatients, 30,000 Emergency Department patients, and 40,000 patients in 30 specialty clinics.

As a teaching hospital, Mount Sinai supports residency programs and participates in affiliated programs with the University of Miami School of Medicine. These programs involve a house staff of approximately 160 residents and fellows. The Medical center also has its own schools of Medical Technology, Nuclear Medicine Technology, Diagnostic Ultrasound and Radiologic Technology. In addition, Mount Sinai is actively involved in clinical and biomedical research, including support of the free-standing Harry S. Pearlman Biomedical Research Institute.

Many innovative techniques have originated at Mount Sinai, including implantation of an atomic pacemaker and new methods of treating chronic and acute pain. A Sleep Disorder Center and an outstanding laboratory for the diagnostic and treatment of respiratory disease are part of Mount Sinai's nationally recognized Pulmonary Department.

The Theodore Baumritter Institute houses the world's largest medical cyclotron. Mount Sinai's Radiology Department maintains a leadership role in medical technology through the Mary Ann and James L. Knight Magnetic Resonance Imaging (MRI) Center, which houses two MRI scanners used for clinical diagnosis and research.

In addition to Mount Sinai's contribution to the medical field, it has also significantly contributed to the community by making medical care more accessible to indigent patients. Mount Sinai provides *one-third* of all charity care made available by all hospitals in Dade County, with the exception of the only public hospital (Jack-

son Memorial), but is not reimbursed for providing this care. Moreover, Mount Sinai also meets the medical needs of more *minority* and *non-paying* patients than any other private hospital in South Florida.

Mount Sinai Medical Center of Greater Miami provides an ideal location for establishing a national demonstration to improve medical care provided to the elderly. According to the U.S. Census Bureau, in 1990, 18.3 percent of Florida's population was over the age of 65 years, as compared to 12.6 percent of the nation as a whole. In Miami Beach, 30 percent of the population is over age 65. Reflective of Miami Beach's elderly population, Mount Sinai provided nearly 90,000 patient days in 1992 to individuals 65 years and older. This number represents 60 percent of the Medical Center's total patient days.

REQUEST FOR FEDERAL SUPPORT

This national demonstration project, which will examine the complex issues surrounding the fastest growing sector of the population—the elderly—will be the first of its kind in the country. We are ready to move forward on this project and will be ready to spend $10 million in fiscal year 1994. Because we are sensitive to the fiscal limitations of the subcommittee, however, we would request the maximum amount available. As this is a cost-shared project, Mount Sinai will raise the remaining $12 million.

Thank you for your time and consideration of this request.

National Treasury Employees Union

Statement of Robert M. Tobias, National President

Mr. Chairman and Members of the Subcommittee: I am Robert M. Tobias, National President of the National Treasury Employees Union. NTEU is the exclusive representative of more than 150,000 Federal workers, including virtually all employees of the Internal Revenue Service and the U.S. Customs Service.

I am pleased to appear today to present NTEU's views on the budgets for IRS and Customs for fiscal year 1994. As Customs is governed by a two-year authorization, we will present our recommendations for Customs' authorized level for fiscal year 1994 and fiscal year 1995.

I want to thank you, Mr. Chairman, for your personal efforts to draw attention to the serious consequences of the President's pay and budget proposals for Federal workers and their agencies. We are mortgaging the future of the Federal service because government is not pay-competitive in the labor market. What business, preparing to make a $24 billion investment in automation, would fail to pay competitive salaries for the skills it needs to make that investment productive? This is what is happening with Tax Systems Modernization and Customs Modernization. NTEU is striving to persuade the Clinton administration that implementing the Federal Employees Pay Comparability Act is both an investment in the future and a precondition for reinventing government. If we want to create lean, smart, and efficient agencies delivering quality service to the customer, we must achieve pay that is competitive with the private sector.

The President proposes to freeze Federal pay for one year and delay until 1995 the new locality pay adjustments set to begin in 1994. Due to provisions in FEPCA that NTEU fought hard for, Congress must vote to freeze, delay, or otherwise alter the cost of living adjustment or locality pay set to take effect in 1994. In its report on the Budget Resolution for fiscal year 1994, the House Budget Committee said: "The Committee is concerned regarding the postponing of the implementation of locality pay for federal workers, who have long awaited this bipartisan solution. The Committee and Administration agree to work with the appropriate authorizing and appropriations committees to find acceptable alternative methods for achieving the budget savings so that locality pay shall be implemented in fiscal year 1994."

This Subcommittee will have a voice in the Federal pay debate, and I know we may rely on your leadership, Mr. Chairman. We must not miss the present opportunity to fully implement the Federal Employees Pay Comparability Act, which is essential to effective government.

REINVENTING GOVERNMENT

For NTEU, reinventing government is not a new concept, but something we have pioneered and practiced. IRS is being transformed into an institution working to earn and keep its customers' trust, and IRS employees have been active participants in the process. Long ago, we decided it would take years to achieve through tradi-

tional collective bargaining the goals we sought to bring about a better quality of life for our members. So we joined with IRS in launching the joint quality improvement process, and persuaded management to take employees' ideas seriously. We urged IRS to stress voluntary compliance and to set the goal of achieving a 90 percent compliance level. We urged a focus on the customer, with the aim of delivering one-stop service like any reputable financial institution. We urged establishment of an incomparable school of tax law within IRS. We urged preparation of an employee retention plan to reduce attrition. We brought these ideas to the Treasury Appropriations Subcommittee, and enlisted your support. These proposals were adopted, culminating in the recent joint agreement to make IRS a total quality organization and further empowering employees in organizational decision-making. We are hopeful that Customs management will see the value of working with NTEU in a similar manner.

SETTING BUDGET POLICY

Both IRS and Customs are revenue-producing agencies essential to any deficit reduction strategy. Both face essentially uncontrollable workloads: IRS must deal with a growing taxpayer population, as total returns climb from 208 million in 1990 to 230 million in 1995; Customs confronts double-digit increases in merchandise shipments and passenger arrivals. Both agencies are undergoing rapid modernization, and both have been assigned critical tasks by the Clinton administration.

President Clinton's economic program embodies many significant tax law changes, including a broad energy tax, expansion of the earned income tax credit, investment tax credits, and tax preferences for investments in small business and enterprise zones. Health care reform will likely entail significant revisions to personal and business credits for health insurance, and there has been talk of a national sales or consumption tax. These tasks will impose significant new burdens on IRS, especially in tax law compliance and taxpayer services.

In fiscal year 1994, IRS will need to deploy significant compliance resources to collect the energy tax, and to reinforce Taxpayer Service to handle the additional volume of calls from taxpayers. There is also a recognized need for greater outreach to those eligible for the earned income tax credit. The IRS budget request includes $19.6 million to implement tax law changes in fiscal year 1994. We consider this amount to be inadequate, because no additional FTE's have been requested for staff requirements to carry out the impending changes. GAO has commented that, "Depending on the nature of any tax law changes, the impact on IRS' staffing could be significant and, with no provision for that impact in the budget request, could require IRS to divert authorized staffing from other areas."

We agree with this assessment, and our budget recommendation includes additional staff for Taxpayer Service, Examination, and Collection to carry out the major tax law changes Congress is expected to enact this year (Table 1).

As the Clinton administration moves to toughen the nation's trade policies, the Customs Service will face new challenges. Anti-dumping and countervailing duty laws are principal trade remedies utilized by business, but they are being weakly enforced by Customs, according to GAO. The administration is encouraging greater use of Section 201 as a trade remedy in the event of a significant surge in imports, and we may expect retaliatory duties will increasingly be imposed on goods from countries whose markets remain closed to U.S. exports.

GAO is studying the new demands on Customs stemming from ratification of the North American Free Trade Agreement. Already trade with Mexico is skyrocketing, and there are frequent cargo bottlenecks at the border. Customs will need resources to enforce the NAFTA rule of origin (it found wholesale evasion of the U.S.-Canada rule of origin by Japanese auto companies). Enforcement resources are also required to deter transshipment through Canada and Mexico to obtain lower tariff treatment, to handle a 10 percent growth in formal entries, and to inspect a minimum of 7 percent of containerized shipments. These demands are not adequately recognized and funded in the Customs budget request, which calls for a reduction of 365 FTE for fiscal year 1994 (Table 10).

PRESIDENTIAL BUDGET INITIATIVES

The President has issued executive orders mandating:

(1) A reduction of not less than 4 percent of the full-time equivalent positions of each agency to achieve an overall reduction through attrition of 100,000 positions by the end of fiscal year 1995. At least 62.5 percent of the reduction must be achieved by end-fiscal year 1994. Exemptions may be made by OMB for delivery of essential services and compliance with applicable law.

(2) A reduction in Federal agency administrative costs of 3 percent of the fiscal year 1993 level adjusted for inflation, in fiscal year 1994; 6 percent of the same baseline in fiscal year 1995; 9 percent in fiscal year 1996; and 14 percent in fiscal year 1997.

While we understand the politics of these initiatives, we consider them misguided in principle. Across-the-board, brute-force reductions hit essential activities (like revenue collection in IRS and Customs) and non-essential activities the same. Budgetary savings should be based on careful study of each agency. For this, we have GAO and the President's recently established National Performance Reviews. Congress should reject these reductions until the President submits recommendations based on NPR's. It is unfortunate that the House Budget Committee chose to build the President's reduction into the budget totals for each government function, and we trust this will be remedied by the Subcommittee.

HOUSE BUDGET COMMITTEE INITIATIVES

In its fiscal year 1994 Budget Resolution, the House Budget Committee holds discretionary outlays below the 1993 level in current dollar terms through 1998. According to the Committee, this "puts additional pressure on Congress and the Administration to 're-invent' and streamline government: to reform or eliminate programs that are low priority, obsolete, or counterproductive, and not to introduce new programs faster than can be absorbed by existing and available resources."

We stand opposed to any freeze, and are pleased that the House's recommendation did not survive conference. Even so, agency budgets will be extremely tight the next five years, with caps imposed that may prevent full funding of ordinary inflation adjustments to maintain current service levels.

Such a budget policy threatens to put Federal agencies on a roller-coaster budget cycle; first you have cuts in service, then increases to offset the worst effects of the cuts, and so on. Unwillingness to fund inflation increases in personnel and non-personnel costs forces agencies to choose among undesirable options. Are fewer taxpayers to be assisted or fewer delinquent accounts collected? Should there be fewer commercial fraud investigations or less effort on narcotics interdiction?

Without inflation adjustment, civilian agencies as a group would incur a reduction in real resources on the order of 7 percent a year, which is a conservative estimate of annual cost escalation. We figure this from personnel compensation based on the employment cost index (2–3 percent), promotions and within-grade pay increases (2 percent), locality pay (1 percent) and non-personnel costs (2–3 percent). This means that by fiscal year 1998, agency budgets would incur real reductions on the order of 35 percent, unless funds are made available from defense cuts or other program savings to cover the cost increases.

Perhaps cuts of this magnitude may be warranted in some programs and not in others. There is a risk that, as current service budgets are squeezed, agencies will reduce essential as well as non-essential functions. This we know: using caps to squeeze agency budgets is not based on any assessment of what functions government should be performing, and causes inefficient spending of taxpayer dollars. This Subcommittee should fight for full funding of annual cost increases to maintain the current service baseline. Such a policy does not prevent program changes when activities become obsolete or unnecessary. NTEU's position is that, whatever the program mix, mandatory costs should be fully funded.

BUDGET ENFORCEMENT RULE IMPACTING IRS AND CUSTOMS

The Budget Enforcement Act prohibits revenues resulting from additional compliance resources from being scored in favor of the Committee on Finance and the Committee on Ways and Means. We understand the provision was felt to be necessary to prevent undermining the pay-as-you-go requirement that any program changes be offset by either increased taxes or entitlement savings. This has created a situation where Finance and Ways and Means rarely authorize or support additional compliance resources, even where it can be shown that the resulting revenues will exceed the cost several times over.

Part of the problem has been Congress' lack of confidence in the revenue estimates from compliance produced by the agencies. But it has been years since this problem first surfaced in IRS. GAO, OMB, Treasury and the two services have all worked on acceptable estimating models. Surely by now the Federal government has the means to accurately estimate incremental compliance revenues.

With additional compliance resources, IRS and Customs can contribute significantly to deficit reduction. Congress recognized this when it provided tax law compliance resources in the 1990 Budget Act. President Clinton included a 2,000 FTE tax compliance initiative in IRS' fiscal year 1994 budget. But provision of compli-

ance resources should not have to wait for a budget summit or change of administration. To assure a steady focus on tax and trade law compliance, we urge this Subcommittee to recommend that the law be changed to allow compliance revenues to be scored to Ways and Means and Finance, using scoring models agreed to by CBO and OMB.

TAX ADMINISTRATION TRUST FUND

The idea of a tax administration trust fund was first proposed by the Senate during consideration of the Tax Reform Act of 1986. The provision never became law, as it was dropped in conference. The idea was that all or part of the revenues from tax law enforcement would be allocated to a trust fund from which monies would be permanently appropriated to finance IRS compliance activities.

Similar ideas have appeared in recent work on reinventing government, and in the House Budget Committee's report on the fiscal year 1994 Budget Resolution. The Committee mentions as a possible reform, "an incentive program which encourages all employees, managers, and agencies to pursue cost savings by allowing them to retain a portion of these savings." Savings, of course, may be defined broadly to include recovery of monies owed to the government.

We believe the time has arrived for reconsideration of this idea. IRS and Customs should be authorized to draw on a special account containing all or part of revenues collected above a certain baseline, and to use these funds for compliance, performance, and productivity-enhancing initiatives. By giving management and employees a stake in efficient operations, and control over resources they may use in the public service, agencies would gain additional freedom to innovate and more responsibility for results. We urge the Subcommittee to direct IRS and Customs to convene task forces to prepare agency proposals implementing this concept. These proposals should then be evaluated by Treasury, OMB, and GAO.

INTERNAL REVENUE SERVICE BUDGET FOR FISCAL YEAR 1994

The Administration's request for $7.4 billion and 116,060 FTE for IRS in fiscal year 1994 is shown in Table 1. This is a net increase of 792 FTE over the current year. The budget contains a 2,000 FTE revenue initiative, but this is reduced by 1,219 FTE for anticipated productivity gains from TSM and other investments. In this budget, audit coverage stays under 1 percent, and the accounts receivable inventory continues to grow instead of being reduced. The source of all tables is the President's budget and IRS, unless otherwise mentioned.

For fiscal year 1994, NTEU recommends an additional $75 million and 1,000 FTE for Taxpayer Service to accommodate the sharp growth in telephone demand experienced the past two years, $200 million and 2,544 FTE for Examination to keep audit coverage just above 1 percent, and $187.5 million and 2,500 FTE for Collection to commence reducing the inventory of accounts receivable, which will continue to grow unless additional resources are provided. Of the additional amount provided for Examination, $12.5 million and 44 FTE comes from deleting privatized debt collection and transferring those resources to Examination.

In sum NTEU recommends an additional 6,000 FTE and $450 million above the President's budget request for fiscal year 1994. NTEU's recommended appropriation for IRS is $7.8 billion and 122,060 FTE for fiscal year 1994.

IRS' request to Treasury for fiscal year 1994, totaling $8.7 billion and 123,459 FTE, and Treasury's action on the request, are shown in Table 2. IRS requested about 6,000 more FTE for tax law enforcement, 1,100 more for processing tax returns and assistance, and 1,200 more for information systems than Treasury allowed.

The President's program announced last February contained three important initiatives for IRS. First, $148 million was provided to accelerate investments in Tax Systems Modernization in fiscal year 1993. This initiative was lost when the supplemental appropriations bill containing these funds—the President's Economic Stimulus Bill—was defeated. This imposes a further delay on tax systems modernization, and will require IRS to re-program TSM funds accordingly.

Second, 2,000 FTE are authorized for a concerted attack on the tax gap. These positions will cost $150 million in fiscal year 1994 and have a five-year cost of $811 million. The initiative will yield $11 million in additional revenue in fiscal year 1994, and $1.537 billion during fiscal year 1994–98, according to the Administration. Third, there will be an enforcement initiative targeted at transfer pricing abuses by multinational firms. IRS' International Division is responsible for this area, which receives an additional $30 million and 177 FTE in the fiscal year 1994 budget.

While we applaud these initiatives, we should note that the additional 2,000 FTE is reduced by productivity savings and the executive orders discussed earlier, resulting in a net increase of 1,062 FTE for tax law enforcement. Examination increases only 94 FTE, Collection increases 688 FTE, while the Information Returns Program actually decreases by 156 FTE.

These changes result largely from the fact that the IRS budget was reduced by more than 1,000 FTE and $49 million to account for "contingent productivity savings", defined as savings anticipated if the investments in TSM and other information systems requested in the budget are funded by Congress. We know that the $148 million TSM supplemental will not be available, resulting in a stretchout of TSM and delay in achieving any productivity savings. We continue to strongly oppose taking credit for productivity savings in advance of actually achieving them. While in some cases introduction of new systems may result in staff savings, in other cases there may be no saving at all because workload grows, more functions are performed, work is performed to a higher quality standard, or tasks that were once deferred are accomplished.

NTEU's recommendation for fiscal year 1994 includes resources to offset the "productivity savings" made in the budget for Taxpayer Service, Examination, and Collection, if such savings are not realized. We also note that GAO, in its testimony on IRS' budget, questioned whether such savings would be realized and noted the serious consequences if the anticipated savings do not materialize (GAO/T–GGD–93–23).

Of the additional 688 FTE allocated to Collection in the budget, 121 FTE would be for more Revenue Officers. GAO has testified in opposition to an increase in Revenue Officers, making the argument that Collection staff is too heavily weighted toward the field collection activity, and that up-front phone contact with delinquent taxpayers would result in faster case disposition and greater revenue collected per staff-year.

NTEU believes GAO is wrong in opposing an increase in Revenue Officers. We agree there is a strong case for strengthening Service Center collection branches and Automated Collection System (ACS) phone operations. But the Collection Field Function needs to be supported as well because Revenue Officers work the most difficult and complex cases, compliance depends importantly on IRS' ability to follow up delinquency by personal contact when other contacts are unavailing, and there is already a large and growing backlog amounting to billions of dollars in cases waiting to be worked by Revenue Officers.

Moreover, proper execution of the government's collection instruments of last resort—levies and seizures—to assure taxpayers' rights provided by law, requires verification of a taxpayer's financial situation. This can frequently be accomplished only by field contact and investigation. It is invalid for GAO to point to greater revenue return per staff year from phone operations, because ACS gets first crack at the collection inventory and it is their job to take the easier and more lucrative cases, leaving the more difficult ones to field staff. Finally, the Collection Field Function is important to sustaining voluntary compliance, and needs to be strengthened in light of the $117 billion Collection inventory.

Table 2 mentions the fact that for fiscal year 1993 IRS underestimated its labor costs by $220 million. This situation has occurred in past years, and has attracted the attention of OMB and Congress. In order to finance this shortfall, IRS reduced the number of authorized FTE by 2,000 in fiscal year 1993. It is operating this year at a level 2,000 FTE below the enacted level of 115,498 FTE. IRS also moved $135 million into labor cost from supporting categories, including travel, supplies and services, and equipment. In its fiscal year 1994 budget, IRS requested OMB to restore the funds that have been shifted to cover the current shortfall.

Table 3 presents an overview of IRS from 1970 to 1992. Notice first that IRS realized 116,212 FTE for fiscal year 1992, an historic high. Total returns, gross collections, and number of taxpayers assisted also reached all-time highs. Fiscal year 1991 brought significant staff increases in collection, returns processing, and taxpayer service as a result of the bipartisan budget agreement that year.

Table 4 presents a personnel summary of positions and employees for IRS in fiscal years 1990–1991. At the end of 1991, IRS had 119,213 employees. There were 8,377 revenue officers on board, almost 1,000 more than a year earlier. There were 1,000 more revenue agents and nearly 400 more taxpayer service representatives than in 1990.

Tables 5 and 6 present IRS performance indicators at a glance, comparing fiscal year 1991 and fiscal year 1992. In Returns Processing, the accuracy of adjustments to taxpayers' accounts increased from 86 percent to 89 percent, while timeliness of adjustments remained high. In Collection, the number of dollars collected per staff-year increased 12 percent between 1991 and 1992, while the total accounts receiv-

able dollar inventory likewise grew 12 percent to $117 billion. For Examination, recommended taxes and penalties rose nearly 20 percent, and the average yield-to-cost ratio stood at 22:1 at the end of 1992. The Coordinated Examination Program alone accounted for $16 billion of the $28 billion in recommended taxes and penalties for 1992. CEP results were up 45 percent over 1991. Reversing an historic trend, IRS in 1992 significantly reduced the average time to complete an examination.

In Taxpayer Service, the toll-free telephone accuracy rate for tax law questions was 90.6 percent in 1992, up from 77 percent in 1990. During the 1993 filing season, the accuracy rate was 89 percent.

However, accessibility to the toll-free telephone system has fallen drastically the last two years, with only 33 percent of callers being able to get through to IRS in the 1992 filing season, and only 24 percent this year. About 73 percent of callers got a busy signal this year, compared to 65 percent last year. The problem stems from the large increase in demand, from 55 million calls through March 27, 1993 compared to 40 million for the same period last year.

IRS telephone assistance resources actually decreased from 1,027 staff years in 1992 to 911 staff years in 1993, while caller demand was increasing 37 percent. The fiscal year 1994 budget requests 67 fewer FTE's, yet IRS plans to answer 880,000 more calls due to installation of modern call-routing equipment and use of more permanent rather than temporary employees. GAO testified that it doubts that this budget strategy will improve call answer rates in 1994, especially since demand will increase due to tax law changes this year.

As Taxpayer Service undergirds our voluntary compliance system and the Service's Compliance 2000 strategy, NTEU believes it is imperative to strengthen the toll-free telephone system. Our alternative budget adds $75 million and 1,000 FTE for Taxpayer Service in fiscal year 1994.

Audit Coverage has continued to decline, as shown in Table 7, and will be .92 in 1993 and .95 in 1994 under the President's budget. Between 1982 and 1992, overall audit coverage fell 42 percent, from 1.63 to .95. Coverage of upper-income taxpayers shared in this decline. Audits of individuals with more than $50,000 adjusted gross income fell 69 percent, businesses with over $100,000 gross receipts fell 34 percent, and corporations with over $100 million fell 35 percent. To halt this decline and raise overall coverage above 1 percent, we repeat our recommendation for 2,500 additional staff-years above the President's budget request for Examination in fiscal year 1994.

Between 1980 and 1987, compliance by small corporations fell from 81 to 61 percent, while IRS' audit coverage of such corporations was dropping from 6.1 to 1.1 percent. GAO cites a study published in *National Tax Journal* for December 1990 that found that if IRS had kept audit coverage at the 1977 level through 1986, taxpayers would have reported about $16 billion more in taxes for 1986. This means the cumulated gain from 1977 to 1986 and beyond would be huge.

GAO reports that performance in the Information Returns Program, has fallen sharply. Although 3.8 million underreporter notices were issued in fiscal year 1992, only 2.4 million will be issued in fiscal year 1993, and 2.6 million in fiscal year 1994. The 2000 FTE compliance initiative includes $4.2 million and 107 FTE's to allow IRS to work additional underreporter cases. Yet this is more than offset by a reduction of $7.5 million and 252 FTE's for productivity savings expected from implementation of the Automated Underreporter System.

This system has experienced delays in the past, and GAO has testified: "If those delays continue or if the expected savings from that system fail to materialize, IRS' enforcement presence in the Information Reporting area will not likely continue to decline rather than increase (GAO–GGD–93–23)." In NTEU's alternative budget, any saving that does not materialize is offset from the 5,000 additional FTE provided for Tax Law Enforcement. If the productivity gain in IRP should not be realized, 252 FTE would be restored to that program, for a net increase of 107 FTE in fiscal year 1994.

Table 8 is a chart prepared by GAO showing the dimensions of the $117 billion accounts receivable problem confronting IRS. The total dollar inventory has grown rapidly and will continue to grow according to testimony presented to this Subcommittee by IRS. While IRS estimates that only $28 billion of this amount is collectible, the $117 billion figure more accurately reflects the workload confronting IRS, which must deal with every account.

Total collections from delinquent accounts declined between 1990 and 1992. Based on experience with the fiscal year 1983 revenue initiative, we know that additional staff to work delinquent accounts will yield large returns. We reiterate our recommendation for 2,500 additional FTE for Collection in fiscal year 1994.

At OMB's direction, IRS is initiating a pilot project using private debt collection agencies to work deferred accounts. Two-thirds of the accounts owed IRS are $500

or less. Deferred accounts are those considered too small to warrant more attention than computer notices. We regret that IRS is being required to depart from the sound policy of utilizing only civil servants to collect delinquent taxes, and advancing the IRS goal of encouraging voluntary compliance rather than only extracting revenue. In addition, at a time when IRS is projecting a redeployment of 20,000 persons, IRS should be providing the work to those being redeployed, not the private sector. We urge the Subcommittee to delete the $12.5 million budgeted for this project, and to bar the use of appropriated funds for the purpose of employing contractors for tax collection. This should be done immediately, as IRS is proceeding to execute this project which, in our opinion, will create a taxpayer backlash detrimental to voluntary compliance.

Because of the labor cost shortfalls mentioned earlier, OMB has begun to look at "grade creep" as a possible source of rising labor costs. As a result, IRS prepared Table 9 which shows the number of IRS personnel by grade for each occupational series. Only five occupations show a significant degree of advancement in grade above the journeyman level. Such advancements are "career ladder" promotions reflecting increased experience and expertise, and greater responsibility. These promotions reflect not only merit and higher skill attainment, but the sound policy of retaining the most experienced and productive people for a full career. The largest return of tax dollars comes from the audit of high-income individuals and corporations—areas avoided because there aren't enough GS–12's in Revenue Agent Series 512 to do the work.

Another series where this is evident is series 334, computer specialist. The need to advance and retain these critical workers based on skill level and responsibility is obvious. Series 343, program analyst, comprises highly skilled analysts in a wide range of disciplines. Such workers advance to more responsible duties through career ladder promotions which recognize higher responsibility and serve to retain critical skills. Criminal investigators, series 1811, are advanced in a similar way.

Lastly, the revenue officer series 1169 shows how inappropriate the journeyman grade of GS–9 is. Most of the experienced revenue officer force has advanced to grades 11 and 12, leaving grades 7–9 to new entrants. Over the years, significant additional duties and responsibilities have been added to the revenue officer position, leading NTEU to call for raising the journeyman grade to GS–11.

One notes in Table 9 that nearly 20,000 series 592 tax examiners are clustered in lower grades, about half in grades 1–6 and half in grades 7–9. These workers pose an acute retraining and redeployment problem for IRS and NTEU because the Automated Underreporter Program (a component of TSM) has recently rendered roughly 16 percent of the workforce—2,000 workers—redundant. Underreporter functions will no longer be performed at the Memphis, Andover, Cincinnati, and Kansas City service centers. Each will lose about 500 tax examiner jobs each, plus 50 clerical jobs. Most of the affected workers are clustered in grade 6. Under policy statement P–O–112, issued in 1988, IRS guarantees a job with no loss of grade, plus retraining, for workers displaced by Tax Systems Modernization. As TSM comes on stream, problems like the displaced tax examiners will intensify, yet IRS seems to have done very little practical planning to anticipate these problems.

The current and future affected workers are primarily women and people of color. They must be provided with an opportunity through retraining to be productive at the IRS. Otherwise, the IRS will lose much of the diversity it has so eagerly sought. The affected tax examiners have enforcement skills, and should be retrained for entry-level compliance occupations.

A similar problem will emerge soon in the data transcriber occupation series 356, in the service centers. There are some 2,800 key-punch operators in grades 1–6 who enter return information into the computer. Most are clustered in grades 3 and 4. These jobs will be eliminated by the advent of electronic imaging now being tested at the Austin Service Center. Whole documents can be scanned and input directly into the computer. NTEU is urging IRS to anticipate and plan for the impending workforce adjustments, but so far there has been very little movement. We will keep the Subcommittee informed of developments in this area.

Some IRS regions have begun using term appointments of up to four years to avoid having to offer career jobs to people at a time when the agency is in flux. The Atlanta region alone has issued about 2,000 such appointments in all grades, depriving career workers the opportunity to compete for these jobs because they would lose their career status. The abuse of temporary appointments is a travesty, as the positions are career positions and career workers are losing promotion opportunities. We urge the Subcommittee to direct IRS to cease this abusive practice. IRS can do so by limiting temporary appointments to entry-level positions, and by posting and allowing career workers to compete for higher-graded vacancies.

U.S. CUSTOMS SERVICE BUDGET FOR FISCAL YEAR 1994

The U.S. Customs authorized level for fiscal year 1993 is $1.3 billion and 17,689 full-time equivalent positions. Customs will operate this year with 800 FTE more than in 1992—an increase due largely to the efforts of this Subcommittee. NTEU's view is that Customs remains an agency under severe strain because of the rapid growth of world trade and huge narcotics threat.

For fiscal year 1994, the Administration has requested $1.3 billion and 17,199 FTE for Customs' Salaries and Expenses. The budget imposes a cut of 365 FTE and provides no funds to cover unavoidable mandatory cost increases, because allowance for these costs are more than offset by other reductions in the budget.

NTEU's alternative budget restores 365 FTE to Customs, and adds 750 additional FTE—400 Inspectors and 350 Import Specialists—in order to meet NAFTA workload requirements, reduce understaffing at airports and Southwest border ports, increase inspections of containerized shipments above the projected level (5 percent) so a minimum of 7 percent will be inspected, and process a 10 percent increase in formal entries in fiscal year 1994 (Table 10).

NTEU also recommends restoring $19 million of the total $28 million in mandatory cost increases that are not funded in the budget. Customs' resources are stretched thin, and failure to fund cost increases in its support base can only lead to reductions in service and important enforcement programs.

Since Customs has a 2-year authorization, it is important to consider the authorized level for fiscal year 1995. NTEU recommends an increase of $140.5 million and 750 FTE, including 400 Inspectors and 350 Import Specialists. Formal entries are expected to grow 10 percent to 12 million in fiscal year 1995, and to reach 15 million by year 2000. The total number of shipments and containers will continue growing as the economy recovers. To process the growing workload, modest increases in two critical line occupations—Inspectors and Import Specialists—will be required.

For fiscal year 1995, NTEU's recommendation includes $30 million for the Federal pay raise that year, $40 million for increases to maintain current service levels, and a $30 million contingency reserve. We believe it is prudent to provide such a reserve to meet any unanticipated requirements that may emerge after the authorization is enacted, because of the rapidly shifting drug threat and changes in trade laws. We also believe the Ways and Means and Finance Committees should be urged to continue past practice for commercial operations, by specifying the authorized level as a floor and not as a ceiling.

Customs is constantly putting out fires because it lacks the resources needed to bring each of its many functions to an acceptable level of performance. Customs inspectional force of 8,000 is approximately the size of a big city police force, yet is spread among more than 300 ports of entry. Customs depends on a mere 4,200 workers to process some 10 million trade entries a year while enforcing tariffs, quotas, intellectual property rights, and collecting nearly $20 billion in revenue. NTEU continues to believe that providing Customs with sizable resource increments each year for the next several years—to be allocated to areas of greatest need—is a cost-effective way to enable the Service to put its principal functions on a sound footing.

GAO portrays Customs as a "high-risk" agency with a tremendous gap between promise and performance. GAO found that Customs' Automated Commercial System processed more than 7 million entries in 1991 and detected only 43,000 or 16 percent of an estimated 265,000 violations of U.S. trade law. The potential revenue loss from these undetected violations amounts to hundreds of millions of dollars.

GAO concluded: "Because the management of Customs is in such disarray, there is no reliable method to determine the nature of these violations and consequently no way to determine the threat to commerce or the amount of revenue loss to the Treasury."

The President's program contains three initiatives relating to Customs. First, it provides $5 million annually to improve compliance with harbor maintenance fees, resulting in $165 million in additional revenue over four years. Customs has a legal duty to collect these fees, but OMB discovered that enforcement was "only at a minimum level, and many fee collections are on a voluntary basis."

Second, the President proposes to permanently extend the Customs merchandise and passenger processing fees, which are due to expire in fiscal year 1995. These user fees would raise an estimated $1.1 billion during fiscal years 1994–97.

Third, the President calls for reforming Customs Inspector overtime laws and applying the $18 million annual savings to deficit reduction. NTEU strongly objects to using the savings for deficit reduction. In order to gain the support of Inspectors for overtime pay reform, it is necessary to earmark the $18 million savings to offset the increased cost of Inspectors' retired pay, which would be based on overtime as

well as straight-time earnings. Each of the overtime pay reform bills introduced in Congress would accomplish this. These bills are H.R. 477 introduced by Congressman Charles Rangel, S. 317 introduced by Senator Dennis DeConcini, and H.R. 22 introduced by Congressman J.J. Pickle. However, Customs Inspectors stand opposed to H.R. 22 because, unlike the other bills, it fails to provide parity with other Federal employee inspectors, does not provide adequate incentives to recruit and retain a high-caliber inspectional force, fails to recognize the law enforcement work of Customs Inspectors, and gives OMB control of the user fees from which overtime payments are made.

Mr. Chairman, this concludes my statement. Are there any questions?

TABLE 1. Internal Revenue Service Budget Request for FY 19994 and NTEU Recommendation
(Dollars in Thousands)

	FY 1992 Actual		FY 1993 Authorized Level		FY 1994 Request		FY 1994 Recommended Additions		FY 1994 NTEU Recommendation	
	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE
Administration & Management	141,130	2,198	157,368	2,263	167,822	2,397			167,822	2,397
Processing Tax Returns & Assistance	1,660,706	35,420	1,634,298	34,814	1,696,853	34,615	+ 75,000	+1,000[a]	1,771,853	35,615
Tax Law Enforcement	3,577,666	69,174	3,839,711	68,355	4,043,281	69,417	+375,000	+5,000[b]	4,418,281	74,417
Information Systems	1,156,834	9,881	1,480,341	9,836	1,487,722	9,631			1,487,722	9,631
TOTAL	6,536,336	116,673	7,111,718	115,268	7,395,678	116,060	+450,000	+6,000[c]	7,845,678	122,060

NOTES:

a. NTEU recommends $75 million and 1,000 FTE for Taxpayer Service to accomodate increased demand on toll-free telephone system to anwer 70 percent of calls instead of 24 percent during 1993 filing season.

b. NTEU recommends deletion of $12,537,000 and 44 FTE for privatized debt collection, and transfer of this amount to Examination to increase audit coverage. In addition, NTEU recommends 2,500 additional FTE for Examination to raise audit coverage above 1 percent, and 2,500 additional FTE for Collection to commence reducing the inventory of acounts receivable. Thus, NTEU's program would increase Examination 2,544 FTE and $200 million, and Collection 2,500 FTE and $187.5 million.

c. Besides program increases, these FTE are intended to offset any shortfall in anticipated productivity due to slippage in TSM and other ADP programs.

TABLE 2

STATUS OF THE FY 1994 BUDGET

$ MILLIONS

	FY 1993 Enacted Approp.	FY 1994 Treasury Request	FY 1994 OMB Request	Difference FY 1994/1993 Amount	Difference FY 1994/1993 %
Administration & Management	$157.4	$260.4	$209.7	$52.3	33%
Processing Tax Returns & Assistance	1,634.3	1,854.4	1,746.8	112.5	7%
Tax Law Enforcement	3,835.4	4,564.2	4,121.8	286.4	7%
Information Systems:					
TSM	572.0	980.6	814.5	242.5	42%
Non-TSM	908.3	1,105.2	949.8	41.5	5%
Total Information Systems	1,480.3	2,085.8	1,764.3	284.0	19%
TOTAL IRS	$7,107.4	$8,764.8	$7,842.6	$735.2	10%

FTEs

Administration & Management	2,227	2,519	2,477	250	11%
Processing Tax Returns & Assistance	34,436	35,602	34,520	84	0%
Tax Law Enforcement	69,163	74,308	68,684	(479)	-1%
Information Systems:					
TSM	2,728	3,652	3,175	447	16%
Non-TSM	6,944	7,378	6,616	(328)	-5%
Total Information Systems	9,672	11,030	9,791	119	1%
TOTAL IRS	115,498	123,459	115,472	(26)	-0%

LABOR COST SHORTFALL

The proposal at OMB includes $177 million to restore the FY 1993 reprogrammings and FTE cut to cover the labor cost shortfall. The revised shortfall estimate is $200 million; an additional $43 million is needed.

PAY TRENDS (Cover Promotion Costs)

Funds needed to cover career ladder promotions, above-journey-level promotions and within-grade increases. The current number on the table at OMB, supported by Treasury, is $66 million. The current revised estimate for these pay trends is $115 million, requiring an additional $49 million.

SUPPORT COSTS

To partially cover the FY 1993 labor shortfall, $95 million was shifted from nonlabor costs. This funding of $60 million needs to be restored to Support areas. This item was not included in the request to OMB.

PROGRAM INITIATIVES

The Treasury request included $447 million and approximately 5,000 FTEs for program initiatives. The current proposal at OMB has $39 million and approximately 400 FTEs. We are currently preparing a package of additional compliance options (initiatives).

INFORMATION SYSTEMS

The request at OMB totals approximately $1.8 billion, an increase of 19% over FY 1993. Most of the increase is to modernize IRS' information systems technology. Tax Systems Modernization (TSM) will ensure timely and accurate delivery of all tax information through systems automation and integration.

STATUS OF SUBMISSION

On January 5, the Bush Administration will make available a FY 1994 "current services" budget. The Clinton Administration will submit to the Congress in February or March a full FY 1994 President's Budget.

TABLE 3

AGENCY AT A GLANCE

ITEM	FY-70	FY-80	FY-89	FY-90	FY-91	FY-92
TOTAL BUDGET	$886 M.	$2.29 B.	$5.19 B.	$5.50 B.	$6.11 B.	$6.68 B.
Budget for TSM	----	----	$86 M.	$158 M.	$248 M	$426 M
(FY-93 appropriation is $7.107 Billion, covering 115,498 FTEs; $572 million for TSM)						
TOTAL STAFF	68,683	87,464	114,758	111,858	115,628	116,212
Collection	11,366	9,932	18,470	18,034	18,605	**
Criminal Inves.	2,453	3,866	4,485	4,290	4,617	**
Examination	20,444	23,360	31,315	28,788	28,592	**
Human Resources	2,571	3,644	5,650	5,286	5,541	**
Returns Proc.	22,011	27,702	35,914	38,149	39,685	**
Taxpayer Serv.	*	4,974	7,495	7,449	8,297	**
Counsel	*	*	2,950	2,842	2,919	**
TOTAL RETURNS (mils)	113.1	143.4	199.6	201.7	203.7	204.1
Individual	77.214	93.1	110.3	112.5	114.1	115.0
GROSS COLLECTIONS (bil$)	195.7	519.4	1,013.3	1,056.4	1,086.9	1,120.8
From enforcement	2.5	6.0	23.5	25.5	24.3	**
AUDIT COVERAGE (% RETURNS)						
Individuals	*	2.02	.92	.80	1.00	**
Corporations	*	6.48	2.02	2.59	2.36	**
ADD'L TAX/PENALTIES RECOMMENDED AFTER EXAM	$3.1 B.	$9.5 B.	$21.3 B.	$22.3 B.	$31.4 B.	**
CRIMINAL CASES						
Cases Closed	8,068	8,077	5,253	5,243	5,513	**
Convictions	521	1,601	2,282	2,472	2,651	2,778
TAXPAYERS ASSISTED (mil) (Walk-in/Phone/Correspondence)	28	43.1	72.3	69.4	71.3	74.7

* not reported separately

** not currently available

Table 4

Internal Revenue Service Personnel Summary[1]

Location and Type	Average Positions Realized		Number of Employees at Close of Year	
	1990	1991	1990	1991
Service Total	112,967	117,017	116,425	119,213
Permanent	111,543	115,413	114,494	117,287
Temporary	1,444	1,604	1,931	1,926
National Office	7,637	8,507	8,140	9,435
Field Offices[2]	105,350	108,510	108,285	109,778
Data Processing Operations	38,149	39,685	39,580	38,796
Collection	18,034	18,605	18,391	19,595
Revenue Officers	7,601	7,929	7,460	8,377
Other	10,433	10,676	10,931	11,218
Taxpayer Services	7,449	8,257	8,457	8,544
Taxpayer Service Specialists	1,308	1,437	1,415	1,619
Taxpayer Service Representatives	2,411	2,572	2,573	2,946
Other	3,730	4,288	4,469	3,979
Examination	28,788	28,592	28,574	29,644
Revenue Agents	15,526	15,738	15,350	16,377
Tax Auditors	3,003	2,842	2,953	2,885
Other	10,259	10,012	10,271	10,382
Employee Plans/Employee Organizations	2,423	2,370	2,429	2,454
EP/EO Technicals	1,429	1,373	1,462	1,422
Other	994	997	967	1,032
Appeals	2,813	2,859	2,830	2,836
Appeals Officers	1,274	1,268	1,284	1,282
Appeals Auditors	222	241	232	247
Other	1,317	1,350	1,414	1,407
Tax Fraud	4,290	4,817	4,256	4,507
Special Agents	2,846	2,776	2,794	2,884
Other	1,444	1,841	1,462	1,623
Executive Direction	134	169	158	190
Management Services	881	1,356	1,204	1,525
Resources Management	5,286	5,541	5,533	5,763
Counsel	2,842	2,819	2,835	3,813
Inspection	1,258	1,340	1,318	1,449
International	640	667	658	697

[1]Reimbursements are included in the above figures

[2]Includes the Martinsburg and Detroit Computing Centers

TABLE 5

At a Glance One

Returns Processing at a Glance				
Index	*Data Thru*	*1991*	*1992*	*% Change*
Adjustment Timeliness	9/30	91%	91%	0.0
Adjustments Accuracy Rate	9/30	86%	89%	3.5

Collection At a Glance			
Index	*FY 1991*	*FY 1992*	*% Change*
Dollars Collected Per Staff Year	$482,000	$540,000	12.0
Dollars Assessed Per Staff Year	$327,000	$350,000	7.0

Examination at a Glance				
Index	Category	10/90 to 09/91 [1]	10/91 to 09/92 [1]	% Change
Total Program Recommended Tax and Penalties	12 month rolling total	$23.407 billion [2]	$27.961 billion	19.5
Total Program Yield to Cost Ratio	12 month rolling total	20.13 [2]	22.63	12.4
Coordinated Examination Program (CEP) Recommended Tax and Penalties	12 month rolling total	$11.403 billion [2]	$16.538 billion	45.0
Time to Complete an Examination (Average Days)	Revenue Agent 1040	374 [3]	326	-12.8
	Revenue Agent 1120	454 [3]	342	-24.7
	Tax Auditor 1040	278 [3]	239	-14.0

1 - Data for 12 month period
2 - A $6.4 billion CEP case and 7 RA Other cases ($777.1 million) have been removed from the 09/91 baseline to eliminate comparative distortion
3 - Base cycle days computed for 1/91 - 9/91. Prior data not available

TABLE 6

At a Glance Two

Accounts Receivable Dollar Inventory (ARDI) at a Glance			
Index	*Sept '91*	*Sept '92*	*% Change*
Gross ARDI	$110.7 billion	$130.6 billion	18.0

Taxpayer Service at a Glance		
Telephone Indices	*Period*	*Rate*
Quality Rate	04/27/92-07/18/92	90.6%

Additional Accounts Receivable Indices (ARDI) at a Glance			
	Sep 1991	*Sep 1992*	*% Change*
Accounts Receivable Growth (National) Old 6 year rule.	$104.5 billion	$117.0 billion	12.0

Appeals Large Case (Over $1 Million) at a Glance			
Index	*FY91*	*FY92*	*% Change*
Units in Inventory	2,791	2,473	-11.4
Billions of Dollars in Inventory	$36.806	$37.572	2.1
	FY-91	FY-92	
% of $ Conceded on Appeal	57%	72%	26.3
Dollars Conceded on Appeal	*$20.165 bil*	*$18.450 bil*	-8.5
Average Time to close case	31 mo.	20 mo.	-35.5

Appeals (Overall) at a Glance			
Index	*FY91*	*FY92*	*% Change*
Yield-to-Cost Ratio	33.5	21.4	-36.1

Criminal Investigation at a Glance			
Rate	*FY91*	*FY92*	*% Change*
Legal Review Acceptance	93%	93%	0.0
Conviction	90%	92%	2.2

Exempt Organizations and Employee Plans at a Glance						
	Exempt Organizations			Employee Plans		
	FY91	*FY92*	*% Change*	*FY91*	*FY92*	*% Change*
Examination Program Hours Per Case	21.0	22.1	5.2	18.5	22.1	19.5
Determination Letter Program % Inventory Over 180 Days	5.9%	4.0%	-32.2	N/A	N/A	N/A
Determination Letter Program Hours Per case	2.3	2.3	0.0	2.1	1.9	-9.5

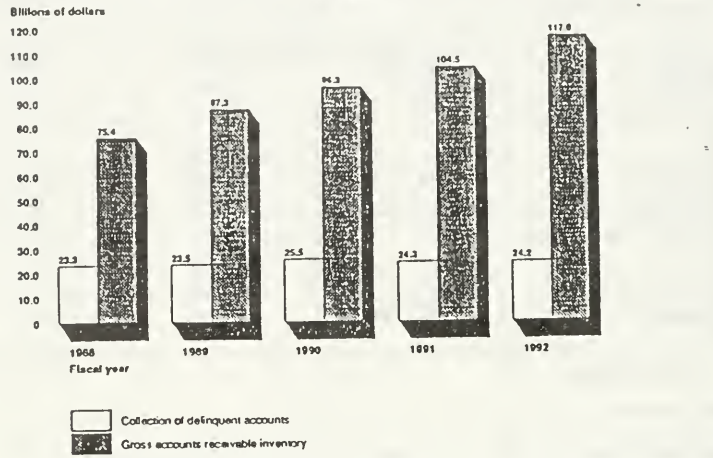
TABLE 7

RETURN TRENDS

	FY 1982	FY 1992	% Change
Ind. Over $50K			
Filed	3,305,000	16,829,000	+409%
Examined	187,702	294,068	+56%
Coverage	5.68%	1.75%	-69%
Bus. Over $100K			
Filed	921,000	1,581,600	+72%
Examined	54,684	62,489	+13%
Coverage	5.94%	3.95%	-34%
Corps. Over $100M			
Filed	6,000	11,600	93.3%
Examined	4,004	5,068	26.6%
Coverage	66.73%	43.69%	-35%
TOTAL COVERAGE			
All income, estate and gift without IRP	1.63%	.95%	-42%
All income, estate and gift with IRP	5.22%	5.26%	1%

TABLE 8

Comparison of Total Accounts Receivable and Collection of Delinquent Accounts, Fiscal Years 1988 Through 1992



Note 1: Accounts receivable values for fiscal years 1991 and 1992 have been adjusted from a 10-year to a 6-year statutory collection period.

Note 2: In 1992, IRS redefined the gross accounts receivable inventory by excluding certain amounts previously included. The 1992 inventory value was calculated on the basis of the old definition and, therefore, is comparable to prior years.

Source: IRS data.

Source: General Accounting Office, T-GGD-93-04, February 3, 1993.

TABLE 9

IRS PERSONNEL
Breakdown by Series (200 + employees) and Grade

SERIES	GS 1-6	GS 7-9	GS 10	GS 11-12	GS/GM-13	GM-14	GM-15	00	TOTAL
201	3	39	0	301	156	57	14	1	591
203	650	439	4	2	0	0	0	0	1295
212	1	34	0	237	8	1	0	0	281
235	2	30	0	283	92	20	6	1	454
301	6	490	19	703	290	172	69	2	1751
303	6004	617	8	7	0	0	0	0	6636
305	3781	127	14	1	0	0	0	0	3923
318	6113	622	23	3	0	0	0	0	6741
322	1561	0	0	0	0	0	0	0	1561
326	307	2	0	0	0	0	0	0	309
332	320	826	2	53	0	0	0	0	1201
334	123	350	0	2193	1312	355	50	1	4384
335	612	399	9	17	1	0	0	0	1038
340	0	1	0	60	220	497	492	206	1476
343	24	623	6	1643	1367	631	114	0	4609
344	334	723	13	1	1	0	0	0	1076
350	249	10	0	0	0	0	0	0	259
356	2694	154	16	0	0	0	0	0	2864
391	0	80	0	206	116	27	6	0	435
303	1286	1186	102	37	0	0	0	0	2613
511	0	110	0	271	161	43	11	0	596
512	15	927	0	9047	5470	468	20	0	16447
525	364	459	37	6	0	0	0	0	866
526	11	4299	3	670	3	0	0	0	4986
530	380	16	1	0	0	0	0	0	397
544	425	24	0	0	0	0	0	0	449
592	9399	10190	574	325	2	0	0	0	20490
601	0	3	0	72	138	31	0	0	244
905	1	0	0	384	440	856	423	57	2161
930	0	0	0	231	518	499	129	0	1377
950	2	92	0	149	2	0	0	0	245
962	1469	2325	61	4	0	0	0	0	3859
986	436	74	0	0	0	0	0	0	510
987	0	12	0	117	156	148	34	3	470
1102	1	117	0	102	60	53	15	2	250
1169	7	1768	0	5352	788	147	0	0	8062
1802	269	26	0	0	0	0	0	0	297
1811	27	268	0	1211	1539	431	136	9	3623
TOTAL	39,076	77,906	892	23,686	12,840	4936	1,521	392	111,144

Table 9 (continued)

KEY TO JOB SERIES

SERIES	TITLE
GS-201	Personnel Officer/Management Specialist
203	Personnel Clerk/Assistant
212	Personnel Staffing Specialist
235	Employee Development Specialist
301	Miscellaneous and Administrative Specialist
303	Miscellaneous Clerk/Assistant
305	Mail and File Clerk/Assistant
318	Secretary
322	Clerk Typist
326	Office Automation Clerk/Assistant
332	Computer Operator
334	Computer Specialist
335	Computer Clerk/Assistant
340	Program Manager
343	Management/Program Analyst
344	Management Assistant
350	Equipment Operator
356	Data Transcriber
391	Telecommunication Specialist
501	Financial Manager/Budget Analyst
503	Financial Clerk/Assistant
511	Auditor
512	Internal Revenue Agent
525	Accounting Technician
526	Tax Technician
530	Cash Clerk/Teller
544	Payroll Clerk/Technician
592	Tax Examiner
801	General Engineer
905	Attorney
930	Hearing and Appeals Clerk/Specialist
950	Paralegal Specialist
962	Contact Representative
986	Legal Clerk/Technician
987	Tax Law Specialist
1102	Contract Specialist/Procurement Analyst
1169	Internal Revenue Officer
1802	Compliance Inspection and Support
1811	Criminal Investigation

TABLE 10. U.S. Customs Service FY 1994 Budget Request For Salaries and Expenses and NTEU Recommendation
(Dollars in Thousands)

	FY 1993 Authorized		FY 1994 Budget Request		NTEU Recommended Additions For FY 1994[a]		NTEU Recommended Authorization For FY 1994		NTEU Recommended Additions For FY 1995[c]		NTEU Recommended Authorization For FY 1995	
	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
Inspection & Control	8,367	510,927	8,262	507,014	+505	+26,765	8,767	533,779	+400	+21,600	9,167	555,379
Enforcement	5,021	474,497	4,870	461,044	+151	+8,003	5,021	469,047			5,021	469,047
Tariff & Trade	4,176	343,270	4,067	343,761	+459	+24,327	4,526	368,088	+350	+18,900	4,876	386,988
TOTAL	17,564	1,315,917	17,199	1,311,819	+1,115	+78,504[b]	18,314	1,390,323[b]	+750	+140,500	19,064	1,530,823

a. NTEU restores the 365 FTE reduction proposed by the Administration for FY 94, by adding 105 FTE and $5,565,000 for Inspection & Control, 151 FTE and 8,003,000 for Enforcement, and 109 FTE and $5,777,000 for Tariff and Trade. These increases are essential to maintain current enforcement initiatives and service levels. In addition, NTEU adds $400 Inspectors costing $21,200,000, and 350 Import Specialists costing $18,550,000 to the budget request for FY 94, in order to meet additional NAFTA workload requirements, reduce understaffing at airports and southwest border ports, increase inspections of containerized shipments above the projected 5% level, and deal with a 10% increase in formal entries to $11 million in FY 94. NTEU also adds $19,409,000 to restore cuts in the Customs baseline made in the budget request, as Customs cannot absorb cuts of the magnitude proposed without reducing essential activities.

b. Includes $19,409,000 to restore cuts in the Customs baseline.

c. For the FY 95 authorization, NTEU adds 400 Inspectors costing $21.6 million, 350 Import Specialists costing $18.9 million, $30 million for federal pay requirments, $40 million for increases to maintain current levels of service and $30 million as a reserve for contingencies. In addition, legislation should continue past practice by specifying that the proposed authorized level for commercial operations should serve as a floor, not as a ceiling. Formal entries are expected to grow 10 percent to 12 million in FY 95, and 15 million by the year 2000, along with additional containerized shipments to be inspected. The additional Inspectors and Import Specialists are required to process this workload and raise the level of high-risk container inspections to 7 percent of total container shipments.

NATIONAL PUBLIC RADIO

STATEMENT OF JOSEPH T. DEMBO, ACTING PRESIDENT

Mr. Chairman and members of the subcommittee, this testimony is submitted on behalf of National Public Radio's 468 member stations, most of whom use nonprofit second and third-class mail. Full funding of revenue forgone is important to public radio's ability to serve its 14.5 million listeners across the nation. Public radio requests an appropriation of $612.5 million for revenue forgone in fiscal year 1994.

We are aware of the difficult situation this subcommittee is in—the requested level is $490 million more than the amount appropriated for fiscal year 1993, and $520 million more than the President's expected budget request. However, appropriation of revenue forgone at last year's level or lower, without safeguards such as the language included in last year's bill or reform of the revenue forgone system, would present dire circumstances for public radio stations and other nonprofit organizations.

Public radio stations are important local institutions bringing the finest radio programming available in the U.S. to communities across the country. These noncommercial stations provide listeners with award-winning news and information programming like MORNING EDITION and ALL THINGS CONSIDERED and meet vital needs of their local communities by working with schools, libraries, YMCAs, and other organizations on projects ranging from literacy programs to programs on youth and prejudice. Many public radio stations are the only outlet for classical or jazz programming in the area; in rural areas, public radio stations often bring cultural programming to communities that do not have theaters or symphony orchestras.

Public radio funding comes from a variety of sources, including the Corporation for Public Broadcasting, businesses and foundations, and in some cases, colleges and universities. Listeners, however, are the single largest source of income for public radio.

FUNDRAISING MAILINGS

Public radio stations use third-class nonprofit mail for targeted direct mail campaigns, pledge follow-up after on-air fund drives, and membership renewal requests. It is imperative that public radio station use of the mail not become prohibitively expensive.

In 1991, 1.4 million listeners contributed a total of $77.3 million to their local stations, about 21 percent of public radio income. As other sources of funding, such as state grants, have decreased, individual giving has become more important than ever. Third-class nonprofit mail is essential for maintaining listener financial support.

PROGRAM GUIDES

For most stations, the program guide is an important communications tool. Contributors to stations receive the guides, telling them what programs they can expect to hear and when; program guides also reinforce the importance of the station to the listener and to the larger community. Stations with magazine-style program guides send them at the second-class nonprofit rate. Many stations, however, produce a simpler guide, similar to a newsletter, that is sent at the third-class nonprofit rate.

Many public radio stations are increasingly active in their communities, forging links with other nonprofits and exploring new ways to extend the reach and impact of their programming. Program guides and other third-class mailings are an important tool in this effort. For example, many stations have developed working relationships with area schools, developing ways for teachers to utilize news, information and cultural public radio programs in the classroom. These partnerships depend on frequent mailings to schools to inform teachers about upcoming programs. KUAR/KLRE in Little Rock, Arkansas regularly provides information about possible educational uses of the station's programming to teachers in three area school districts—especially music programming, which has been almost entirely cut from the Little Rock school district curriculum. The programming offered by KUAR/KLRE is often the only material available to teachers for music education.

A FUNDING FREEZE WOULD BE DEVASTATING TO PUBLIC RADIO STATIONS

A freeze in funding at last year's level would lead to 35 percent increases in nonprofit postage rates. This would force public radio stations to make some serious de-

cisions: what will they cut to cover postage costs? Many stations would eliminate any second or third-class mailing that did not bring in revenue. In an informal survey of stations, most said that they would have to discontinue sending a program guide, leaving their listeners less informed about upcoming programming and therefore not as well served by the station. As a result of large nonprofit postal increases in recent years, many stations have already reduced the frequency of their program guides. Termination of this membership service eliminates an important incentive for listeners to join or financially support the station. This could result in less membership income, the largest source of funding for public radio stations. In addition, mailings to community organizations, arts organizations, and schools about special programming on public radio stations would be reduced or eliminated at some stations.

Increased postage will increase fundraising costs. Experience gas shown that bulk mailing is an essential tool for public radio member retention. However, the return on investment of bulk mailing would be reduced with increased postage costs. Many stations anticipate that they would be forced to reduce the amount of fundraising mail, and they expect that contributions would decrease as a result.

The Promotion and Development Coordinator at WEKU/WEKH in Richmond, Kentucky uses a recent fundraising mailing to illustrate what a 35 percent increase in postage would mean to her station. In February, the station wrote to members and other possible contributors, asking for money to purchase compact discs. By April, two percent of those receiving the mailing had contributed—a good return on this type of appeal. At current postal rates, this return funds the classical music the station plays as a cultural community service. With a 35 percent increase in postage costs, WEKU/WEKH would lose money on such a mailing, even with a "good" return. This would seriously limit their ability to provide a quality classical music service for the community.

WBUR–FM in Boston estimates that a 35 percent increase in nonprofit postage rates would increase their expenses by $25,000 in fiscal year 1994. Because WBUR relies heavily on listener contributions, the station might be forced to add two full days of on-air fundraising to offset these costs. Station management is concerned its listeners may be unwilling to tolerate additional interruptions to programming; WBUR might be required to forgo production of a program guide instead, thus reducing service to its listeners and to the community at large.

A 35 percent increase in postage would add $6,195 to the fiscal year 1994 budget expenditures of KCUR–FM in Kansas City, Missouri. Because most of its postage costs are used to solicit donations from the public, the station would need to continue its mailings. To make up for the additional postage charges, KCUR believes it would have to eliminate a local reporter from its three-member news staff. KCUR listeners have indicated that in-depth reporting on local issues is one of the services they most value in the station, and a reduction in news staff would result in less local news coverage. However, KCUR sees few other places it could make cuts to make up the difference in increased postage costs.

WHQR–FM in Wilmington, North Carolina has already felt the squeeze from past postal increases, having taken funds from other areas of operations to meet the increases of the last few years. A 35 percent increase in fiscal year 1994 would leave WHQR with two options: take money from its already parsimonious programming budget or drastically curtail its use of the U.S. Postal Service. The first option would reduce the quality of public radio service offered the Wilmington, North Carolina area; the other would put the station in severe financial jeopardy.

A 35 percent increase in third-class nonprofit postage would cost Wisconsin Public Radio about $21,000. That would mean that fundraising mail would have to be reduced by about 200,000 pieces, potentially resulting in a loss of hundreds of thousands of dollars. Wisconsin's 17-station network would need to cut operations by two to three hours per day to absorb such a shortfall. As a result, for some residents of Wisconsin, news and severe weather information would be virtually unavailable after 10 p.m. According to Wisconsin Public Radio, "Other scenarios of program and service cuts could be constructed, but the bottom line is that the privilege of using the nonprofit rate for postage allows us, and other public radio stations, to be more self-sufficient by using direct mail to secure funds. Any change in this policy will be counter-productive to public radio's movement towards more private sector funding."

POSTAL SERVICE PROPOSAL FOR PHASING OUT REVENUE FORGONE

The postal service proposal for eliminating preferred postal rates in three years would be even more devastating to public radio. The phased-in increase would inflict pain on stations at a time when significant portions of their income—federal and

state funds—are contracting. In addition, the eligibility restrictions proposed to begin immediately would reduce or take away one source of income that covers some postal costs—advertising in both second and third-class program guides. Stations would also be affected by the inability of commercial publishers to use the library rate. Currently, many record producers send promotional copies of compact discs (CDs) to stations. Increasing the cost of these promotional mailings will likely reduce the numbers of CDs sent to public radio stations. Because it has had to divert CD budget funds to other areas, free copies from producers are the only source of new recordings for WSVH–FM in Savannah, Georgia. Undoubtedly, other financially strapped public radio stations are in the same situation. Public radio stations frequently are the only classical or jazz music service available to their communities. Without promotional copies, public radio CD libraries quickly would become dated, and the community's classical or jazz service would be significantly diminished.

REFORM OF THE REVENUE FORGONE PROGRAM

National Public Radio believes that the crisis in the revenue forgone program must be addressed through reform of the program. Public radio stations would accept clearly defined restrictions in eligibility as long as legitimate nonprofit efforts are protected. Any reform should also stabilize rates while reducing the funds required for revenue forgone. It appears that provisions included in budget reconciliation legislation may net such a result. We believe that nonprofits in general, and public radio stations in particular, provide important services that would be unavailable in a society without a nonprofit sector. It is appropriate to recognize our nonprofit nature and the important services we provide when setting postal rates.

Thank you for this opportunity to testify in support of revenue forgone. We encourage the subcommittee to fully fund the program for fiscal year 1994.

Loyola Marymount University

Statement of Father Thomas O'Mally, President

Mr. Chairman, distinguished Members of the Subcommittee, I would like to thank you for giving me the opportunity to submit written testimony for the record concerning the initiatives of Loyola Marymount University (LMU) and its Center for International Business Studies. I would also like to repeat my expression of gratitude to the Subcommittee for the $4 million appropriation made on behalf of the Center in the fiscal year 1991 appropriations bill. The purpose of my statement is to give you an update on the development of the Center and the success it has achieved during this past year.

As you will recall, the Center for International Business Studies' mission is to serve as a model facility which will focus on programs that provide detailed information and training in international commerce. The federal purpose of this project, and its most unique characteristic, is to serve as a model for future facilities which will focus on programs which will assist businesses and students by providing detailed information and training specific to international cultures and markets. The federal government will not have any obligation for the operation of the Center. There will be training programs and informational services which, in the future, would certainly be available to federal agencies and employees, but the University does not envision requesting operating funds for the Center. Future funds, like the 1991 funding, will be used to continue the construction of the Center for International Business Studies facility.

Since I have assumed the position of president of Loyola Marymount University, the country has witnessed a staggering decline in economic growth which demonstrates and highlights concern over U.S. trade deficits and our nation's declining competitiveness. This concern has reached critical levels which has necessitated our nation to expedite its efforts in finding a solution to this issue. In order to successfully resolve these problems we must arm ourselves with renewed energy, enthusiasm, intelligence and resources. It is my belief that our Center is a positive force in this direction. We are hopeful for the continued congressional support necessary to propel not only the nation's cities and states, but to also motivate non-profit organizations and other institutions of higher education forward into the struggle for the United States of America to regain a competitive edge in the international marketplace.

Loyola Marymount University is dedicated to developing the Center for International Business Studies as a method of improving the effectiveness of U.S. education and training for global economic competitiveness. Due to the creative and determined efforts of both the faculty and the student body, the still-developing Center

has been both self-starting and entrepreneurial. For example, the Center's formula in teaching MBA students is to train them to think about business in international terms. The MBA program does not follow traditional textbook theory, nor does it exclusively focus on domestic business practices and techniques. Rather, it consolidates data on peoples, their cultures, their politics, in addition to information on economics, finance, marketing and production. Loyola Marymount University's program operates on the philosophy that one cannot fully understand the success of some nations in international economic competition unless one grasps the forces that drive their people and that these forces are not exclusively economic.

The Center has identified opportunities for new associations to enhance international competitiveness. Recently a cooperative program was designed between the Colleges of Business Administration and Science and Engineering. The proposed degree in Engineering and Production Management will concentrate on quality and profitability in the globally competitive environment.

Through its Center for International Business Studies, Loyola Marymount is helping to find solutions to the United States' challenges in international trade, and has designed a comprehensive plan that will enable it to make additional contributions both in the immediate future and in the years to come. The Center for International Business Studies, in cooperation with the Export Managers Association, is beginning the development of an exporters data base for the three-county area of Los Angeles, Ventura and Santa Barbara. Ultimately, business leaders will have the ability to obtain assistance in the process of exporting. This information will enhance U.S. competitiveness and help to reduce the nation's trade deficits.

Through its education and training activities and the Export Managers Association, the Center for International Business Studies will address a broad spectrum of the nation's international trade deficit and competitiveness problems. Generations of American managers do not believe in the necessity for "trade to survive". Most do not even think about the issue. These attitudes need to change—the Center for International Business Studies is prepared to help effect such a change.

Another subject we have been actively exploring is foreign buyers and their buying patterns in the trade show environment. Research we are conducting reveals that if foreign buyers attend a trade show they are potential customers and consequently should be seriously addressed. How we attract foreign buyers and close the sale is a special challenge and our research is showing us how to do it more effectively. This data will represent greater export growth, jobs and improvement in our own self image on competitiveness.

International business has existed as a field of study for many years, but has been avoided by most U.S. students and has been subjected to a parochial view by many faculty. In recent memory, few real leaders of international business have emerged in the United States. This is not to say that U.S. firms have not successfully gone international, but the basis for their success in international business, usually product and money, is today being challenged by foreign firms with equal or even greater strengths and vigor. Because business leaders in the U.S. are not trained to aggressively examine worldwide business conditions, altering markets, changing economic, social, cultural and political conditions and to anticipate new opportunities in emerging markets, U.S. export trade risks falling into stagnation, resulting in fewer employment opportunities.

Because Los Angeles, home to the Center for International Business Studies, is internationally prominent, culturally rich, and the Gateway to the Pacific Rim, the Center enjoys the benefits of being strategically located to implement its initiatives. Chairman Hoyer, I need not tell you that as the nation and the world enter the Age of the Pacific, there is no location more ideal than Los Angeles. The Center for International Business Studies is in an advantageous position to address, through the development of managerial skills for global competition, the problems of the U.S. in the international market. I want to take this opportunity to emphasize that language skills must be combined with those disciplines which will utilize them to solve our national economic problems. One cannot solve our problems by language instruction only, but by providing the base for economic and cultural enlightenment of future business leaders. Loyola Marymount University offers extensive study in numerous languages including Japanese, Chinese, and Russian, as well as Spanish, Modern Greek, French, German and Hebrew.

Unfortunately, in recent memory our nation has been entering a state of global economic competitiveness decline. With the leadership of this Subcommittee, we have begun to establish the Center for International Business Studies as an anchor for economic revitalization of our nation. Through generous past funding of this Subcommittee, the Center today is recognized as a model facility which will focus on programs that provide detailed information and training in international commerce, specific to other cultures and markets and to prepare students to think in

international terms. It stands as the exemplar of how Federal-university partnerships can contribute to the preservation and growth of an economically-troubled community.

Mr. Chairman, I believe that the continuing support of your Subcommittee in the development of this facility is vital to keeping the United States competitive. In its role as protector and standard setter for the quality of federal facilities and accomplishing optimum design potential for those facilities, the General Services Administration establishes models for institutions nationwide. Further support of the Center for International Business Studies at Loyola Marymount University will enable us to continue our establishment of a model for this type of Center. This can be replicated elsewhere, and its vital existence on this campus will enhance the university's mission of education and international programs. Ultimately, it will be one of the seeds of a revitalized economy for the United States.

Therefore, Mr. Chairman, we respectfully request $5.5 million in federal funding. Your leadership and support are deeply appreciated by the entire Loyola Marymount University community. While I am sensitive to the difficult financial restraints facing your Subcommittee this fiscal year, I feel confident that further support of the Center will pay tremendous dividends in increased competitiveness and magnified economic development for our country at a time when it is most needed. Thank you, Mr. Chairman.

Statement of the American Association of Retired Persons

On behalf of the American Association of Retired Persons, thank you for this opportunity to testify concerning fiscal year 1994 appropriations for the Tax Counseling for the Elderly (TCE) program and for revenue foregone.

Mr. Chairman, the Association deeply appreciates the Subcommittee's continued support of TCE. The additional resources provided in fiscal year 1993 represent the first real increase in years for this program which is targeted to low and moderate income older Americans. TCE improves taxpayer compliance measurably for the Internal Revenue service (IRS) by helping to ensure that more tax returns are prepared completely and accurately. The General Accounting Office (GAO) recently reported that during the 1992 filing season, TCE accounted for the preparation of more than four times the number of returns prepared at walk-in sites operated by the Internal Revenue Service. In addition, GAO said TCE returns showed a 97 percent mathematical accuracy rate which was comparable to or higher than other tax preparers that year.

The value of TCE has been amply demonstrated over the years, and is reflected in growing demand for assistance. When the program first began in 1980, it helped 846,000 elderly taxpayers prepare their tax returns. In fiscal year 1992, approximately 1.6 million people received tax counseling, an increase of 5 percent over the previous year. More than 31,000 volunteers were involved in providing this service at approximately 10,000 sites last year.

TCE volunteers are dedicated to the program and are committed to helping others. Most of the people they serve at no cost would be forced to pay a professional preparer as much as $100 to prepare their tax returns—an exorbitant cost for anyone living on a low or moderate income.

Mr. Chairman, to the extent that additional funds are available, AARP recommends an increase next year above inflation in TCE's fiscal year 1994 appropriation. At a minimum, we would urge an increase for inflation in this meritorious program.

An inflation adjustment would at least allow TCE to continue reaching the same number of elderly taxpayers next year. It would also permit continued volunteer support of IRS automation efforts, such as the 1040PC, tax preparation software which condenses tax data to a single (or a few sheets) to ease IRS data entry and reduce IRS expenses.

In addition, increased funding would enable the TCE program to continue to participate in IRS efforts such as the Reduce Unnecessary Filing (RUF) program. Approximately 1.5 million tax returns are filed unnecessarily each year at considerable expense to IRS. Studies show that approximately 45 percent of these taxpayers are over 65. To reduce these high numbers, the IRS developed a worksheet for volunteers to use for those taxpayers who do not need to file a return.

Filing one's federal income tax form can pose formidable programs for anyone, especially for widows who may be preparing a tax return for the first time. The complexities of our tax code, including such provisions as those relating to pension benefits, IRA withdrawals, and one-time exclusion on sale of a primary residence, cause many aged taxpayers particular struggles in computing their tax obligations. More-

over, many aged citizens are not aware of the changes made in our tax laws over the past few years. TCE has been an extraordinarily effective program, with solid support from the communities it serves and the elderly clients who seek assistance. Much of its success is directly related to the interest and support of Congress.

Mr. Chairman, the Association also recommends that the Subcommittee approve a revenue foregone appropriation which would maintain postal rates for nonprofit mailers at current levels. Congress provided this subsidy in recognition that private, nonprofit organizations complement government activities at all levels—federal, state and local. Indeed, the nonprofit sector often acts as a substitute when governmental units are unable to perform certain functions because of budgetary constraints. In the absence of full funding, steps should be taken to work out a resolution that maintains nonprofit postal rates.

In many cases, education, health, and other human services provided by nonprofit organizations enable recipients to live independently without any governmental assistance. Many of these services would be sharply curtailed or even eliminated if Congress did not provide adequate funding for the revenue foregone subsidy, and nonprofit mailers faced substantial increases in postal rates.

Thank you again for this opportunity to comment on the Tax Counseling for the Elderly program as well as the revenue foregone appropriation for fiscal year 1994.

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